

City of Midland, Michigan

Comprehensive Annual Financial Report with Supplemental Information June 30, 2006

City of Midland, Michigan

About the Cover

In 1900 Midland opened its first library in a room at the Unitarian Church with a collection of 200 books. The Library was welcomed by the community and 1,400 books were borrowed the first year.

The Library opened the current building, designed by Alden B. Dow, on January 24, 1955. Grace A. Dow, the wife of Herbert H. Dow, founder of the Dow Chemical Company, had a desire to contribute to the community and a vision for the future and, as a result, endowed the library that proudly bears her name.

In January 2005, the community recognized 50 years of the library building being in existence at its current location at 1710 W St Andrews St. Expansion and remodeling programs in 1985 and 1994 have allowed the Library to continue to meet patron interests and needs as well as integrate essential technological advances into its service offerings.

Additionally, the Grace A. Dow Library was recognized as the winner of the 2005 State Librarian's Excellence Award. The Library received this prestigious award for new and improved services, partnerships in the community, and commitment to customer service.

The Library continues to provide a vast array of top-notch library services for all ages. Explore this integral part of the Midland community at 1710 W St Andrews St or online at www.midland-mi.org.

City of Midland, Michigan

Contents

Introductory Section

Letter of Transmittal	i-vi
GFOA Certificate of Achievement	vii
Organization Chart	viii
List of Principal Officials	ix

Financial Section

Report Letter	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13-14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Reconciliation of Balance Sheet to the Statement of Net Assets	16
Statement of Revenue, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Proprietary Funds:	
Statement of Net Assets	19-22
Statement of Revenue, Expenses, and Changes in Net Assets	23-24
Statement of Cash Flows	25-28
Fiduciary Funds:	
Statement of Net Assets	29
Statement of Changes in Net Assets	30
Notes to Financial Statements	31-68

City of Midland, Michigan

Contents (Continued)

Financial Section (Continued)

Required Supplemental Information

Budgetary Comparison Schedule - General Fund	69
Budgetary Comparison Schedule - Major Street Fund	70
Note to Required Supplemental Information	71-72
Retirement Systems Schedule of Funding Progress - Police and Fire Retirement System	73
Retirement Systems Schedule of Employer Contributions - Police and Fire Retirement System	74

Other Supplemental Information

Nonmajor Governmental Funds:	
Fund Descriptions	75-76
Combining Balance Sheet	77-78
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	79-80
Budgetary Comparison Schedule - Local Street Fund	81
Budgetary Comparison Schedule - Stormwater Management Fund	82
Budgetary Comparison Schedule - Transportation Fund	83
Budgetary Comparison Schedule - Grace A. Dow Library Fund	84
Budgetary Comparison Schedule - Downtown Development Authority Fund	85
Budgetary Comparison Schedule - Community Development Block Grant Fund	86
Budgetary Comparison Schedule - Cable Communications Fund	87
Budgetary Comparison Schedule - Special Activities Fund	88
Budgetary Comparison Schedule - Midland Housing Fund	89
Budgetary Comparison Schedule - Debt Service Fund	90
Nonmajor Proprietary Funds:	
Fund Descriptions	91
Combining Statement of Net Assets	92
Combining Statement of Revenues, Expenses, and Changes in Net Assets	93
Combining Statement of Cash Flows	94

City of Midland, Michigan

Contents (Continued)

Financial Section (Continued)

Other Supplemental Information (Continued)

Fiduciary Funds:	
Fund Descriptions	95
Pension and Other Employee Benefit Trust Funds - Statement of Plan Net Assets	96
Pension and Other Employee Benefit Trust Funds - Statement of Changes in Plan Net Assets	97
Agency Funds - Combining Statement of Changes in Plan Net Assets	98
Internal Service Funds:	
Fund Descriptions	99
Combining Statement of Net Assets	100-101
Combining Statement of Revenues, Expenses, and Changes in Net Assets	102-103
Combining Statement of Cash Flows	104-105

Statistical Section

Section Description	106
Financial Trends	107
Net Assets by Component	108
Changes in Governmental Net Assets	109
Changes in Business-type Net Assets	110
Fund Balances - Governmental Funds	111-112
Changes in Fund Balances - Governmental Funds	113-114
Revenue Capacity	115
Taxable Value and Actual Value of Taxable Property	116
Direct and Overlapping Property Tax Rates	117-118
Principal Property Taxpayers	119
Property Tax Levies and Collections	120
Debt Capacity	121
Ratios of Outstanding Debt	122-123
Ratios of General Bonded Debt Outstanding	124
Direct and Overlapping Debt	125
Legal Debt Margin	126-127
Pledge-revenue Coverage	128
Demographic and Economic Statistics	129
Principal Employers	130
Full-time Government Employees	131

City of Midland, Michigan

Contents (Continued)

Statistical Section (Continued)

Operating Information:

Operating Indicators	132-133
Capital Asset Statistics	134-136
General Revenue by Source	136-137
General Expenditures by Function	138-139
Tax Information	140
Value of Taxable Property	141
Property Tax Levies and Collections	142
Property Tax - Direct and Overlapping	143
Property Tax Levies	144
Ten Largest Taxpayers	145
Special Assessment Collection	146
Legal Debt Margin	147
Direct Overlapping Debt	148
Permits	149
Ratio of General Obligation Debts	150
Ratio of Net Bonded Debt	151
State Equalized Valuation	152

Economic and Statistical Information:

Description	153
Economic and Statistical Data	154-155
Demographic Data	156
Statistical Data	157

October 31, 2006

Honorable Mayor and City Councilmen:

The *Comprehensive Annual Financial Report* (CAFR) of the City of Midland for the year ended June 30, 2006 is hereby submitted. The report represents a comprehensive and detailed picture of our financial transactions during fiscal year 2005-06 and the financial condition of the various funds as of June 30, 2006. The City is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the data as presented is accurate in all material respects and is reported in a manner that fairly sets forth the financial position and results of operations of the various funds of the City.

In 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, which significantly changed the contents and format of municipal financial statements. GASB Statement No. 34 was developed to promote comparability between various units of government and to demonstrate the operational, as well as the fiscal, accountability of each municipality. Prior to GASB No. 34, municipalities reported only on the fund basis. This demonstrated to the financial statement user that the municipality met its responsibility to the public and all legal requirements in the short term, usually a year or a budget cycle. With the adoption of GASB No. 34, a municipality must also include full accrual government-wide financial statements. The purpose of these statements is to demonstrate the operational accountability of the municipality, which refers to the government's responsibility to assure that it is currently meeting, and can continue to meet, operational objectives into the foreseeable future. The accompanying report is in compliance with the new format requirements of GASB No. 34.

The CAFR was prepared to meet the needs of a broad spectrum of financial statement readers and is divided into the following major sections:

Introductory Section: This section introduces the reader to the City of Midland and to this report. Included are this transmittal letter with continuing disclosure reporting enhancements, the City's organizational chart, and a list of principal officials.

Financial Section: The independent auditor's report, management's discussion and analysis letter, government-wide financial statements, combined fund financial statements (together with reconciliations between the government-wide governmental activities and the fund-based governmental funds), and notes to the financial statements are included here.

These are the City's basic financial statements and provide an overview for readers who require less detailed information than is contained in the balance of the report. In addition, required supplemental information and other supplemental information are provided for those readers who require more detailed information.

Statistical Section: Although this section contains substantial financial data, these schedules differ from financial statements in that they present some non-accounting data, cover more than the current year, and are designed to reflect social and economic data, financial trends, and the fiscal capabilities of the City.

Profile of the City

The City of Midland was incorporated in 1887. Located near the center of the eastern portion of Michigan's lower peninsula, approximately 120 miles northwest of Detroit, the City currently occupies a land area of 35.7 square miles and, according to the 2000 Census, serves a population of 41,685. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered to extend its corporate limits by annexation, which occurs periodically in accordance with state statute and the terms of urban cooperation agreements between the City and its surrounding townships.

The City Charter calls for a council-manager form of government. The governing body consists of five council members who are elected on a non-partisan basis, one from each of the City's five wards and who in turn choose one of their number to serve as mayor. The City Manager and City Attorney are appointed independently by the City Council. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing heads of the various departments and all other City employees. The City Attorney oversees all legal matters of the City, including review of contracts and legal documents. An organization chart is included to better illustrate the City's governmental structure.

The City provides a full range of services including police and fire protection, community planning and zoning, building inspections, code enforcement, library, sanitation, water and wastewater treatment, construction and maintenance of highways, streets, and infrastructure, recreation programs, parks, public transportation, and cultural facilities.

Economic Condition and Outlook

The economic environment of the City has remained steady, despite the difficult economic conditions that the State of Michigan and neighboring communities face. Historically, the City has been recognized as a community that offers its residents many economic, cultural, recreational, and educational benefits. Today these benefits remain as promising as ever, thanks in large part to the growth the area continues to experience.

Much of past economic development has focused on the commercial and industrial sector's growth through The Dow Chemical Company and Dow Corning Corporation.

While both companies are still the major influences, with enough undeveloped land within their fences to expand further, there has also been an increased effort spent on attracting and accommodating other firms. This emphasis upon diversifying the economic base reflects a broader development strategy, which is expected to continue into the future.

Tax base and/or employment in the City is also provided by a cogeneration power plant facility, small-to-medium manufacturing companies, retail and service establishments, a regional health care organization, state and local educational institutions, financial institutions, and local government. The City's June 2006 unemployment rate of 4.2 percent compares favorably to the state's average rate of 6.5 percent and the national average of 4.8 percent.

The largest single revenue source is property taxes. The City's tax base has shown steady growth historically, averaging 2 percent over the past five years. In recent years that growth rate has slowed, actually decreasing by 6/10 of 1 percent for the 2005-06 fiscal year. The City's tax base is approximately 35 percent residential and 65 percent commercial, industrial, and utility. The commercial, industrial, and utility sector is comprised of administrative, research, and production facilities of two large chemical companies, a cogeneration power plant, and a variety of other industries and businesses. The three largest industrial/utility taxpayers make up nearly 50 percent of the City's tax base. The City Charter allows a property tax rate of up to 18 mills, which is then reduced by the Headlee Amendment to 17.87 mills. During the 2005-06 fiscal year, the City levied only 9.17 of its authorized mills. Under applicable state statutes, the City is also authorized to levy up to one additional mill for libraries and up to 3 additional mills for solid waste management.

In 1997, the City's three largest taxpayers filed property assessment appeals, involving approximately 25 percent of the City's total tax base. While two of the three appeals were settled, one in October 2004 and another in November 2006, the largest of the three appeals remains unsettled. Note 17 of the Notes to Financial Statements provides more historical and current information on the City's tax appeals.

Major Initiatives

Fiber Optic Network: The City is part owner of a fiber optic network which connects all City facilities with other area agencies, including the county, local intermediate school district, and other nonprofit agencies.

Civic Arena: In the fall of 2005, the City opened a newly constructed, 107,000 square foot civic arena. The new facility includes two NHL-size rinks, one Olympic-size rink, 12 locker rooms, and seats 1,000 people. The City issued \$6.5 million in bonds and collected \$4.5 million in pledges from area foundations and ice enthusiasts to fund the construction of the facility.

Downtown Streetscape Project: During the year, the City completed a \$1.2 million streetscape project providing new patterned sidewalks, planters, light poles, and other sidewalk amenities to several blocks within the Downtown District. The project was funded by the Downtown Development Authority as part of their long-range capital plan for the Downtown area.

Geographic Information System: During this fiscal year, the City initiated a three-year phased implementation plan to create an integrated, enterprise-wide Geographic Information Systems (GIS) program. GIS will allow its users to request information, such as the location of floodplains, the location of specific water and wastewater lines, or all commercial zoned properties in the city to be displayed in an easy-to-read graphical format on a computer.

Financial Information

Internal Controls: Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal structure is designed to provide reasonable, but not absolute, assurance that these objectives are met.

The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budget Controls: The annual budget serves as the foundation for the City's financial planning and control. In April of each year, the City Manager presents a proposed budget to the City Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than the fourth Monday in May. The Council approves appropriations on the functional basis, which is the legal level of control. Expenditures in excess of departmental appropriations are a violation of state law. Amounts not spent by the end of the fiscal year lapse, and require City Council approval to re-appropriate into the next year.

Cash Management Policies and Practices: Cash temporarily idle during the year was invested, as authorized by the City's formal investment policy and Michigan Public Act 20 of 1943, as amended, in certificates of deposit, obligations of the U.S. Treasury, commercial paper, repurchase agreements, and certain investment pools. Maturities of the investments range from 30 days to 18 months, with an average maturity of approximately 90 days. The pension trust fund portfolio also includes common stocks, international stocks, corporate bonds, collateralized mortgage obligations and asset-backed securities. The City's average yield on investments was 4.3 percent, and 9 percent for the pension trust fund. Investment income includes appreciation in the fair value of investments. Changes in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

Risk Management: At the beginning of this fiscal year, the City entered into a public entity risk pool with other Michigan units of government by joining the Michigan Municipal League Liability and Property Pool for its general liability and property coverage.

For employee injury claims, the City also participates in a public entity risk pool with other Michigan units of government, the Michigan Municipal Workers' Compensation Pool.

Police and Fire Pension - Defined Benefit Plan: The City sponsors a single-employer, defined-benefit pension plan for its police and fire employees. The City fully funds each year's annual required contribution to the pension plan as determined by an independent actuary. The most recent actuarial valuation, as of December 31, 2005, reports this plan to be 92.4 percent funded. The remaining unfunded amount is being systematically amortized over 20 years as part of the annual required contribution calculation by the actuary.

MERS - Defined Benefit Plan: The City also provides pension benefits that cover substantially all employees hired before July 1, 2005, other than police and fire employees. These benefits are provided through a state-wide plan managed by the Municipal Employees' Retirement System of Michigan (MERS). The City fully funds each year's annual required contribution to the pension plan as determined by an independent actuary. The most recent actuarial valuation, as of December 31, 2005, reports this plan to be 76 percent funded. Effective July 1, 2005, this plan was closed to new employees.

MERS - Defined Contribution Plan: This plan was adopted for non-police and fire employees, hired on July 1, 2005 or later. This plan requires the City to contribute to the plan an amount equal to 5 percent of each participant's gross earnings.

ICMA - Deferred Compensation Plan: The City participates in a deferred compensation plan administered by International City/County Management Association (ICMA) for all eligible employees hired on July 1, 2005 or later, except police and fire employees. The City will match 100 percent of a participant's contribution, up to a maximum of 7 percent of the participant's gross earnings.

Postemployment Health Benefits: The City provides postemployment health care benefits for police and fire employees, and certain other employees and their dependents. Except for police and fire employees, this benefit program was closed to new employees hired after June 30, 2005. As of the end of the current fiscal year, there were 309 retired employees receiving these benefits, which are financed on both a "pay-as-you-go" and "prefunding" basis. GAAP does not yet require the City to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

MERS - Health Savings Account: This plan is for substantially all employees hired on July 1, 2005 or later, except police and fire employees. The City contributes an amount equal to 2 percent of the participant's wages into a health savings account administered by MERS.

Additional information on the City's pension arrangements and postemployment benefits can be found in Notes 11 and 12 in the notes to the financial statements.

Independent Audit

The City Charter and State statutes require an annual audit of all accounts of the City by certified public accountants. The accounting firm of Plante & Moran, PLLC was selected by the City Council. The City received an unqualified opinion from Plante & Moran, PLLC, which is the best opinion that an organization can receive on its financial statements. Additionally, during the current year, an audit was performed in accordance with the requirements of the Single Audit Act Amendments of 1996. Information and auditor's findings related to the single audit are published as a separate report.

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Midland for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. This was the 17th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, which satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the Department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, the preparation of this document and the accomplishments reported therein would not have been possible without the leadership and support of the Midland City Council.

Respectfully submitted,

Jon J. Lynch
City Manager

David A. Keenan
Director of Fiscal Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Midland
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

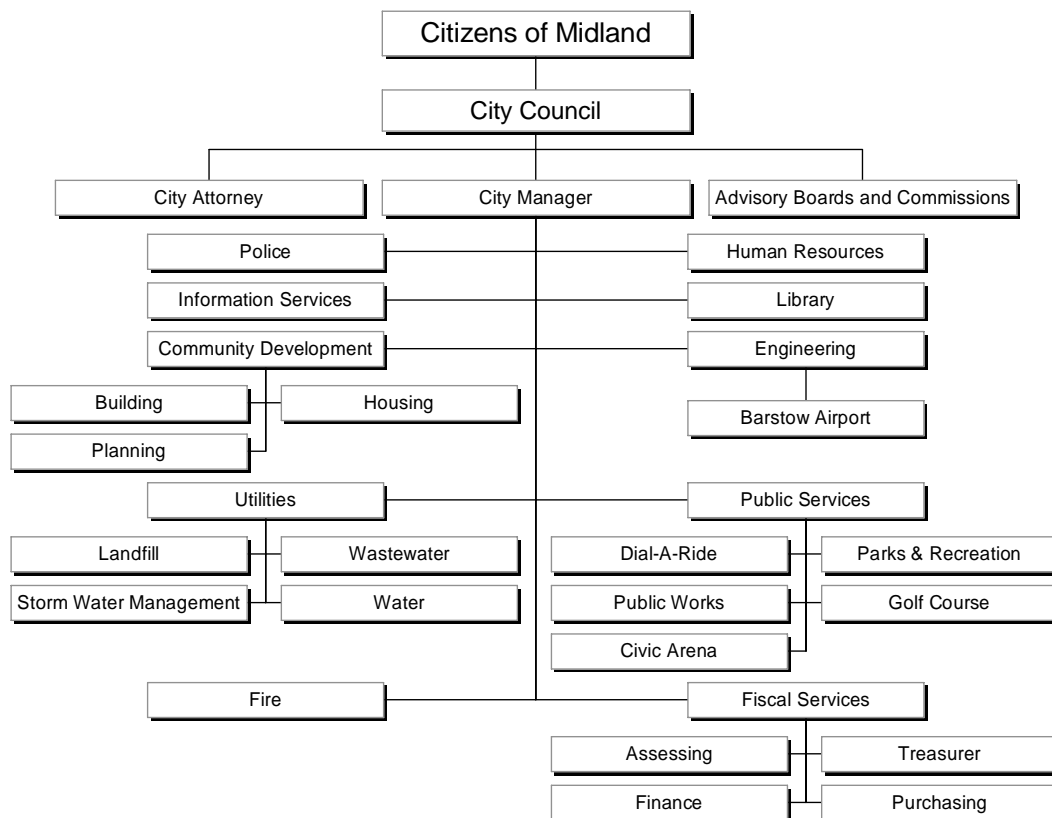
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Organizational Chart



City of Midland, Michigan

List of Principal Officials June 30, 2005

CITY COUNCIL

Ward I	Thomas W. Adams
Ward II	James S. Myers
Ward III	Hollis H. McKeag
Mayor - Ward IV	Bruce A. Johnson
Ward V	Joseph M. Rokosz

ADMINISTRATIVE STAFF

City Manager	Jon J. Lynch
City Attorney	James O. Branson, III
Assistant City Manager	John E. Duso
City Assessor	Reid A. Duford
City Clerk	Selina M. Tisdale
City Controller	Margaret A. Maday
City Engineer	Brian P. McManus
City Treasurer	Sandra K. Marshall
Chief Building Inspector	Lynn A. LaBrecque
Fiscal Services Director	David A. Keenan
Fire Chief	Leonardo Garcia
Human Resources Director	Paula J. Whittington
Information Services Director	John L. Birchmeier
Library Director	Melissa J. Barnard
Police Chief	James Q. St. Louis
Public Services Director	Martin W. McGuire
Purchasing Agent	Michael L. Meyer
Utilities Director	Noel D. Bush



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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Midland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midland, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Midland, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midland, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Midland, Michigan's basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and retirement systems schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and City Council
City of Midland, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2006 on our consideration of the City of Midland, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

October 31, 2006

City of Midland, Michigan

Management's Discussion and Analysis

CITY OF MIDLAND, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2006

As management of the City of Midland (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, the financial statements, and the notes to the financial statements.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$182,496,116. Of this amount, \$36,517,334 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets increased by \$5,947,920 during the fiscal year. Governmental activities accounted for \$706,509 of this increase, while business-type activities accounted for \$5,241,411. The increase was mostly due to positive operating results in each of the City's three largest enterprise funds.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$53,699,044, a decrease of \$2,887,370 in comparison with prior year. Approximately 72 percent of this total or \$38,260,965 is reserved for various purposes. Of the remaining unreserved balance, \$3,758,299 is designated for specific purposes, leaving an unreserved, undesignated balance of \$11,162,354.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$5,392,288, or approximately 15 percent of total General Fund expenditures (including transfers).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplemental information and other supplemental information in addition to the basic financial statements themselves.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Financial Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works (highways and streets and other services), community development, sanitation, parks and recreation, library, airport, transportation, tax appeal defense, interest and agent fees, and other functions. The business-type activities of the City include a regional water distribution system, a wastewater collection system, a sanitary landfill, a golf course, a civic arena, parking, and real estate rental (primarily two senior citizen housing facilities).

The government-wide financial statements can be found on pages 12 through 14 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state or local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Major Street Fund, both of which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for each of its governmental funds, except for the Cemetery and Capital Projects Funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

Proprietary Funds - The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide statements. The City uses Enterprise Funds to account for water distribution, wastewater collection, sanitary landfill operations, civic arena operations, downtown parking, senior citizen housing, and golf course operations. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses Internal Service Funds to account for equipment and fleet operations, data processing services, geographic information system services, general and liability insurance, special assessment project funding, and bus garage operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater, Real Estate Rental, Sanitary Landfill, and Civic Arena Funds, which are considered to be major funds of the City. The remaining Enterprise Funds and the Internal Service Funds are each combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the remaining Enterprise Funds and the Internal Service Funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 19 through 28 of this report.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Fiduciary Funds - Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor Enterprise Funds, and Internal Services Funds are presented immediately following the required supplemental information.

Governmental-wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$182,496,116 at the close of the most recent fiscal year.

The largest portion of the City's net assets (73 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (7 percent) represents resources that are subject to external restrictions on how they are to be used. The remaining balance of unrestricted net assets (\$36,517,334) may be used to meet the government's ongoing obligations to citizens and creditors.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

City of Midland's Net Assets (in 1,000's of dollars)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$ 62,766	\$ 67,955	\$ 32,099	\$ 32,053	\$ 94,865	\$ 100,008
Capital assets	48,552	50,820	113,263	103,751	161,815	154,571
Total assets	111,318	118,775	145,362	135,804	256,680	254,579
Liabilities						
Current liabilities	26,311	9,228	4,352	4,378	30,663	13,606
Long-term liabilities	15,412	40,659	28,109	23,766	43,521	64,425
Total liabilities	41,723	49,887	32,461	28,144	74,184	78,031
Net Assets						
Invested in capital assets -						
Net of related debt	47,046	42,571	86,214	80,266	133,260	122,837
Restricted	11,499	11,840	1,219	1,219	12,718	13,059
Unrestricted	11,050	14,477	25,468	26,175	36,518	40,652
Total net assets	\$ 69,595	\$ 68,888	\$ 112,901	\$ 107,660	\$ 182,496	\$ 176,548

Statement of Activities

The government's total net assets increased by \$5,947,920 during the current fiscal year. Governmental activities accounted for \$706,509 of this increase, while business-type activities accounted for \$5,241,411. The increase was mostly due to positive operating results in each of the City's three largest Enterprise Funds.

Governmental Activities

As mentioned above, governmental activities increased the City's net assets by \$706,509 compared to an increase of \$9,589,153 for 2004-05. Last year's increase was mostly as a result of a reclassification of tax appeal reserve dollars. There is more discussion on tax appeal reserves in Note 17 of the notes to financial statements.

Tax appeal defense expenditures decreased by \$4,474,712 compared to 2004-05. The City experienced significantly less trial time in 2005-06 as a result of having recently settled one of the three major appeals, and having the other two cases in between court dates. Again, there is more discussion on the tax appeals in Note 17 of the notes to financial statements.

General government and public works expenditures increased by \$1,036,634 and \$1,400,397, respectively, due to the completion of several projects during the year that were expensed because they did not meet the threshold for capitalization, and an increase in depreciation expense resulting from the capitalization of projects over the past three years.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

City of Midland Changes in Net Assets (in 1,000's of dollars)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 3,246	\$ 3,757	\$ 21,619	\$ 20,040	\$ 24,865	\$ 23,797
Operating grants and contributions	5,455	5,225	-	-	5,455	5,225
Capital grants and contributions	2,035	2,594	1,458	1,138	3,492	3,732
General revenue:						
Property taxes	27,672	37,178	-	-	27,672	37,178
Intergovernmental	3,667	3,654	-	-	3,667	3,654
Investment earnings	2,947	1,567	1,082	634	4,029	2,200
Other revenue (expense)	46	309	18	(47)	64	262
Total revenue	45,068	54,284	24,177	21,765	69,245	76,048
Program Expenses						
General government	4,099	3,063	-	-	4,099	3,063
Public safety	11,684	10,988	-	-	11,684	10,988
Public works	6,476	5,075	-	-	6,476	5,075
Community development	643	403	-	-	643	403
Sanitation	2,368	2,088	-	-	2,368	2,088
Parks and recreation	3,546	3,893	-	-	3,546	3,893
Library	3,819	4,407	-	-	3,819	4,407
Transportation	1,698	1,517	-	-	1,698	1,517
Tax appeal defense	1,977	6,452	-	-	1,977	6,452
Other functions	4,640	4,786	-	-	4,640	4,786
Interest on long-term debt	13	192	-	-	13	192
Water	-	-	8,992	8,246	8,992	8,246
Wastewater	-	-	5,157	5,260	5,157	5,260
Landfill	-	-	2,411	3,483	2,411	3,483
Golf course	-	-	1,019	919	1,019	919
Parking system	-	-	147	154	147	154
Real estate rental	-	-	3,119	2,991	3,119	2,991
Civic arena	-	-	1,489	-	1,489	-
Total program expenses	40,963	42,864	22,334	21,053	63,297	63,917
Increase in net assets before transfers	4,105	11,420	1,843	712	5,948	12,131
Transfers	(3,398)	(1,831)	3,398	1,831	-	-
Change in Net Assets	707	9,589	5,241	2,543	5,948	12,131
Net assets - beginning	68,888	59,299	107,660	105,117	176,548	164,416
Net assets - ending	<u>\$ 69,595</u>	<u>\$ 68,888</u>	<u>\$ 112,901</u>	<u>\$ 107,660</u>	<u>\$ 182,496</u>	<u>\$ 176,547</u>

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

Business-type activities increased the City's net assets by \$5,241,411. Key elements follow:

As of July 1, 2005, the Civic Arena was transferred from an operation of the General Fund to a separate Enterprise Fund. As a result, business-type activities included \$2,177,312 in net assets that would have been previously reported as governmental.

Consistent with each fund's business plan for the year, the Water, Wastewater, and Sanitary Landfill Funds each posted positive operating results of over \$1 million.

Financial Analysis of the Governments Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$53,699,044, a decrease of \$2,887,370 from the prior year. Approximately 28 percent of this total amount (\$14,920,653) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to a variety of restricted purposes, with the largest reserve being for tax appeals (\$31,880,453). See Note 17 in the notes to the financial statements section of this report for more information on the tax appeals.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$5,392,288, or 14 percent of total General Fund expenditures. The fund balance of the City's General Fund decreased by \$2,674,762 during the current fiscal year. This is mainly due to a reduction in the fund balance tax appeal reserve, as discussed in Note 17 of the notes to financial statements.

The Major Street Fund was also a major fund of the City. At the end of the current fiscal year, its unreserved fund balance was \$6,410,164. Its fund balance decreased by \$392,160 resulting from the expending of funds on many projects completed during the year.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

The Enterprise Funds operations for the current year resulted in an increase to net assets of \$5,133,040. The Water and Wastewater Funds had increases of \$1,105,231 and \$1,311,450, respectively. Both of these funds set their user fees to allow accumulation of reserves for capital investment and debt service. The increase in net assets reflects the result of this process. The Sanitary Landfill Fund also had an increase in net assets of \$1,033,804. This was a planned increase to accumulate funding for future cell development. The Real Estate Rental Fund had a planned decrease of \$270,001. The Real Estate Rental Fund is comprised mainly of two senior housing facilities. The annual operating plans for these facilities set revenue rates to cover all annual operating costs. They do not provide excess revenue to contribute to a sinking fund for facility replacement. As such, this fund typically shows an annual reduction to net asset in an amount similar to the depreciation expense for that year.

General Fund Budgetary Highlights

Differences between the original budget and the final budget were minimal. In general, total revenues and transfers in were greater than budgeted, and expenditures and transfers out were less than budgeted. Sanitation expenditures were over budget by \$110,902 in the area of heavy refuse collection. Severe ice storms in February and March caused lengthy power outages and severe damage to trees and structures within the city.

This caused an increased amount of heavy refuse as well as a prolonged period of time for removal-generated unanticipated labor and equipment rental costs.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounts to \$161,815,017 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, systems, machinery and equipment, streets, bridges, sidewalks, and library circulation materials. Notes 1 and 5 provide additional information regarding the City's capital assets.

City of Midland Capital Assets
(in 1,000s of dollars)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 3,417	\$ 3,369	\$ 2,317	\$ 2,317	\$ 5,734	\$ 5,686
Construction in progress	4,565	14,040	1,290	976	5,855	15,016
Assets being depreciated, net of accumulated depreciation	40,570	33,411	109,656	100,457	150,226	133,868
Total	\$ 48,552	\$ 50,820	\$ 113,263	\$ 103,750	\$ 161,815	\$ 154,570

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$27,224,063. Of this amount, \$22,604,063 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt is backed solely by specified revenue sources.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2005	2005
General obligation bonds	\$ 175	\$ 6,750	\$ 22,429	\$ 17,709	\$ 22,604	\$ 24,459
Revenue bonds	-	-	4,620	5,775	4,620	5,775
Total	<u>\$ 175</u>	<u>\$ 6,750</u>	<u>\$ 27,049</u>	<u>\$ 23,484</u>	<u>\$ 27,224</u>	<u>\$ 30,234</u>

The City maintains an AA rating with Standard and Poor's and an A1 rating with Moody's for the issuance of general obligation debt.

State statutes limit the amount of general obligation debt a government entity may issue to 10 percent of its total equalized valuation. Currently, 10 percent of equalized valuation is approximately \$280 million.

Economic Factors and Next Year's Budgets and Rates

The State of Michigan continues to struggle economically. The City's budget for 2006-07 includes conservative forecasts for state-shared revenue, expecting to receive approximately \$900,000 less than in 2000-01.

An additional 1.7 mills will be levied for the property tax appeal reserve, causing the total millage to increase to 12.10 mills. See Note 17 for more discussion on the tax appeal reserve.

Water and sewer rates each will increase by approximately 4 percent to keep pace with inflation and provide adequate funding for long-range capital planning.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Finance Department at the Midland City Hall, 333 W. Ellsworth Street, Midland, MI 48640. Finance Department staff can be reached at 989-837-3322 or at cityhall@midland-mi.org. Additional information can be obtained at the City's website, www.midland-mi.org.

City of Midland, Michigan

Statement of Net Assets June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 60,203,219	\$ 12,289,737	\$ 72,492,956
Receivables - Net of allowances for uncollectibles:			
Property taxes	144,533	-	144,533
Trust deeds	1,602,390	-	1,602,390
Accounts and contracts	743,697	2,820,729	3,564,426
Special assessments - Short-term	94,733	-	94,733
Accrued interest	223,997	44,545	268,542
Internal balances	(4,374,182)	4,374,182	-
Due from other governments	1,962,337	-	1,962,337
Inventories	840,232	480,857	1,321,089
Prepaid items	740,852	26,283	767,135
Restricted assets (Note 6)	-	3,391,685	3,391,685
Property, plant, and equipment - Net of accumulated depreciation (Note 5)	40,570,117	109,656,878	150,226,995
Property, plant, and equipment not depreciated (Note 5)	7,981,424	3,606,598	11,588,022
Special assessments - Long-term	328,330	-	328,330
Investment in joint venture (Note 1)	255,998	7,965,900	8,221,898
Other property and investments	-	704,678	704,678
Total assets	111,317,677	145,362,072	256,679,749
Liabilities			
Accounts payable	4,045,818	1,137,113	5,182,931
Accrued salaries and wages	604,738	142,444	747,182
Due to other governments	-	30,273	30,273
Deposits	59,278	58,925	118,203
Unearned revenue (Note 7)	10,004	-	10,004
Payable from restricted assets:			
Accrued interest	-	208,115	208,115
Current portion - Bonds payable (Note 9)	-	1,910,000	1,910,000
Guarantee deposits	-	51,210	51,210
Noncurrent liabilities (Note 9):			
Due within one year	21,590,922	813,900	22,404,822
Due in more than one year	15,412,125	28,108,768	43,520,893
Total liabilities	41,722,885	32,460,748	74,183,633
Net Assets			
Invested in capital assets - Net of related debt	47,046,031	86,214,413	133,260,444
Restricted for:			
Highway and streets	7,659,801	-	7,659,801
Cemetery operations	1,538,104	-	1,538,104
Federal expenditures	1,661,922	-	1,661,922
Debt service	18,836	1,219,000	1,237,836
Capital projects	620,675	-	620,675
Unrestricted	11,049,423	25,467,911	36,517,334
Total net assets	\$ 69,594,792	\$ 112,901,324	\$ 182,496,116

City of Midland, Michigan

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,099,371	\$ 625,939	\$ 142,640	\$ 36,654
Public safety	11,683,717	877,505	124,405	-
Public works	6,475,722	288,910	3,793,501	1,432,007
Community development	642,882	51,212	412,455	-
Sanitation	2,368,344	171,911	-	-
Parks and recreation	3,545,585	218,591	-	273,095
Library	3,818,728	765,295	102,765	-
Airport	192,581	108,675	-	181,274
Transportation	1,698,174	137,465	878,903	111,597
Tax appeal defense	1,977,046	-	-	-
Other functions	4,447,380	-	-	-
Interest and fiscal agent fees	13,438	-	-	-
Total governmental activities	<u>40,962,968</u>	<u>3,245,503</u>	<u>5,454,669</u>	<u>2,034,627</u>
Business-type activities:				
Water	8,991,855	8,959,143	-	522,698
Wastewater	5,157,585	4,681,112	-	160,000
Landfill	2,411,423	3,242,408	-	-
Golf course	1,019,146	812,393	-	-
Parking system	146,652	82,982	-	-
Real estate rental	3,118,892	2,717,099	-	-
Civic arena	1,487,796	1,124,275	-	775,000
Total business-type activities	<u>22,333,349</u>	<u>21,619,412</u>	<u>-</u>	<u>1,457,698</u>
Total primary government	<u>\$ 63,296,317</u>	<u>\$ 24,864,915</u>	<u>\$ 5,454,669</u>	<u>\$ 3,492,325</u>
General revenues:				
Property taxes				
Other tax-related revenue				
Intergovernmental (unrestricted)				
Investment earnings				
Miscellaneous revenues				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (3,294,138)	\$ -	\$ (3,294,138)
(10,681,807)	-	(10,681,807)
(961,304)	-	(961,304)
(179,215)	-	(179,215)
(2,196,433)	-	(2,196,433)
(3,053,899)	-	(3,053,899)
(2,950,668)	-	(2,950,668)
97,368	-	97,368
(570,209)	-	(570,209)
(1,977,046)	-	(1,977,046)
(4,447,380)	-	(4,447,380)
(13,438)	-	(13,438)
(30,228,169)	-	(30,228,169)
-	489,986	489,986
-	(316,473)	(316,473)
-	830,985	830,985
-	(206,753)	(206,753)
-	(63,670)	(63,670)
-	(401,793)	(401,793)
-	411,479	411,479
-	743,761	743,761
(30,228,169)	743,761	(29,484,408)
26,518,333	-	26,518,333
1,153,613	-	1,153,613
3,667,075	-	3,667,075
2,947,591	1,082,072	4,029,663
45,993	17,651	63,644
(3,397,927)	3,397,927	-
30,934,678	4,497,650	35,432,328
706,509	5,241,411	5,947,920
68,888,283	107,659,913	176,548,196
\$ 69,594,792	\$ 112,901,324	\$ 182,496,116

City of Midland, Michigan

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Major Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 39,668,709	\$ 7,997,031	\$ 5,617,084	\$ 53,282,824
Receivables - Net of allowances for uncollectibles:				
Property taxes	135,717	-	8,816	144,533
Trust deeds	64,878	-	1,537,512	1,602,390
Accounts and contracts	140,569	11,172	528,208	679,949
Accrued interest	131,508	62,845	15,961	210,314
Due from other funds (Note 4)	-	-	145,898	145,898
Due from other governmental units	489,114	473,948	330,704	1,293,766
Inventory	96,893	-	458,154	555,047
Prepaid items	714,649	-	1,203	715,852
Total assets	\$ 41,442,037	\$ 8,544,996	\$ 8,643,540	\$ 58,630,573
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 3,207,718	\$ 452,995	\$ 284,931	\$ 3,945,644
Accrued salaries and wages	487,811	-	76,151	563,962
Due to other funds	-	-	295,898	295,898
Deposits	33,010	-	26,268	59,278
Deferred revenue	-	-	66,747	66,747
Total liabilities	3,728,539	452,995	749,995	4,931,529
Fund Balance				
Reserved:				
General Fund:				
Encumbrances	1,648,171	-	-	1,648,171
Prepaid items and inventory	107,897	-	-	107,897
Trust deeds/installment contracts	64,878	-	-	64,878
Tax appeal contingency (Note 17)	29,982,838	-	-	29,982,838
Rights of way	517,426	-	-	-
Special Revenue Funds:				
Encumbrances	-	193,726	260,640	454,366
Trust deeds/installment contracts	-	-	1,531,966	1,531,966
Tax appeal contingency (Note 17)	-	1,488,111	409,504	1,897,615
Special trust activities	-	-	157,050	157,050
Housing activities	-	-	859,244	859,244
Permanent Fund - Cemetery activities	-	-	1,538,104	1,538,104
Debt Service Fund - Debt service	-	-	18,836	18,836
Unreserved:				
Designated for future year expenditures:				
General Fund	2,476,261	-	-	2,476,261
Special Revenue Funds	-	530,810	751,228	1,282,038
Undesignated:				
General Fund	2,916,027	-	-	2,916,027
Special Revenue Funds	-	5,879,354	2,366,973	8,246,327
Total fund balance	37,713,498	8,092,001	7,893,545	53,699,044
Total liabilities and fund balance	\$ 41,442,037	\$ 8,544,996	\$ 8,643,540	\$ 58,630,573

City of Midland, Michigan

Governmental Funds Reconciliation of Balance Sheet to the Statement of Net Assets June 30, 2006

Fund Balance - Total Governmental Funds \$ 53,699,044

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of capital assets, less accumulated depreciation 41,194,300

Investments in joint ventures are not financial resources and therefore are not reported in the governmental funds 255,998

Internal Service Funds are included as part of governmental activities:

Net assets of all Internal Service Funds	\$ 14,867,054	
Less allocation to business-type activities	<u>(4,374,182)</u>	
Total		10,492,872

Some of the City's receivables will not be collected soon enough after year end to be available to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds - Due from other governmental units - State revenue sharing and grant funds 725,313

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and therefore are not reported in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net assets:

Bonds and notes payable	(175,000)	
Capital lease payable	(1,330,510)	
Property tax appeal reserve	(31,661,170)	
Compensated absences	(3,836,367)	
Less internal service compensated absences	<u>230,312</u>	
Total long-term liabilities		<u>(36,772,735)</u>

Net Assets - Governmental Activities \$ 69,594,792

City of Midland, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Major Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 22,739,620	\$ 2,371,682	\$ 1,897,114	\$ 27,008,416
Other tax-related revenue	1,153,613	-	-	1,153,613
Licenses and permits	638,515	-	14,585	653,100
Intergovernmental - Federal	149,461	181,274	755,106	1,085,841
Intergovernmental - Other	3,667,075	2,816,978	1,489,264	7,973,317
Charges for services	1,629,310	165,004	1,386,659	3,180,973
Use and admission charges	179,854	-	-	179,854
Investment earnings	2,207,954	322,174	264,229	2,794,357
Contributions and other revenues	791,916	238,241	682,765	1,712,922
Total revenues	33,157,318	6,095,353	6,489,722	45,742,393
Expenditures				
Current:				
General government	4,360,621	-	524,314	4,884,935
Public safety	11,563,868	-	-	11,563,868
Public works	1,894,506	1,458,314	1,618,836	4,971,656
Community development	-	-	820,803	820,803
Sanitation	2,346,672	-	-	2,346,672
Parks and recreation	3,322,203	-	-	3,322,203
Library	-	-	3,630,846	3,630,846
Airport	176,711	-	-	176,711
Transportation	-	-	1,598,969	1,598,969
Tax appeal defense	1,977,046	-	-	1,977,046
Other functions	4,470,025	-	-	4,470,025
Capital improvement	358,875	3,495,761	2,094,577	5,949,213
Debt service:				
Principal retirement	-	-	75,000	75,000
Interest and fiscal charges	-	-	13,438	13,438
Total expenditures	30,470,527	4,954,075	10,376,783	45,801,385
Excess of Revenues Over (Under)				
Expenditures	2,686,791	1,141,278	(3,887,061)	(58,992)
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	2,560	-	182,161	184,721
Transfers in	214,364	90,000	9,161,214	9,465,578
Transfers out	(5,578,477)	(1,623,438)	(5,276,763)	(12,478,678)
Total other financing sources (uses)	(5,361,553)	(1,533,438)	4,066,612	(2,828,379)
Net Change in Fund Balances	(2,674,762)	(392,160)	179,551	(2,887,371)
Fund Balances - Beginning of year	40,388,260	8,484,161	7,713,994	56,586,415
Fund Balances - End of year	\$ 37,713,498	\$ 8,092,001	\$ 7,893,545	\$ 53,699,044

City of Midland, Michigan

Governmental Funds

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (2,887,371)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciable expense	7,459,110
During the current year, the City established a separate enterprise fund to account for arena activities. Amounts recorded as expenses in the construction fund in prior year for capital outlay were also capitalized as CIP in the government-wide statement of net assets; therefore, the net amount of these assets were transferred to the new civic arena	(9,287,647)
Internal Service Funds are used by the City to charge the cost of certain activities to individual funds. A portion of net revenue (expense) of the Internal Service Funds is reported with governmental activities	(596,408)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. Some of the City's receivables will be collected after year end, but are not available soon enough to pay for the current period's expenditures; therefore, they are reported as deferred revenue in the funds:	
Increase in account receivable from State of Michigan	\$ 774
Reclass deferred revenue not received	<u>33,968</u>
Total deferred revenues	34,742
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets:	
Proceeds from issuance of debt	-
Payments on long-term debt	<u>242,944</u>
Total debt activity	242,944
During the current year, the City established a separate enterprise fund to account for arena activities. Amount recorded as debt was transferred from the governmental-type funds to the civic arena	6,500,000
Accrued compensated absences, in most cases, are not recorded in governmental funds. These expenses are recognized when earned in the statement of activities	(256,436)
The collection of property taxes to fund a reserve for tax appeals is recorded as revenue in governmental funds. However, this reserve will eventually be paid out, so it is a liability, and the change in this reserve is shown as a reduction to the current year's property tax revenue in arriving at the change in net assets	(490,083)
Investments in joint ventures are not financial resources and therefore are not shown on the fund-based statements	<u>(12,342)</u>
Change in Net Assets of Governmental Activities	\$ 706,509

City of Midland, Michigan

	Business-type Activities - Enterprise			
	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 4,882,853	\$ 1,498,976	\$ 1,643,600	\$ 3,789,640
Investments (Note 3)	-	-	-	-
Receivables - Net of allowances for uncollectibles:				
Accounts and contracts	1,353,157	901,506	7,725	536,790
Special assessments - Current				
Accrued interest	14,301	11,014	5,050	14,040
Due from other funds (Note 4)	-	-	-	1,716,709
Inventories	396,169	-	-	-
Prepaid items	-	-	-	-
Restricted assets - Current	1,265,693	862,997	-	-
Total current assets	7,912,173	3,274,493	1,656,375	6,057,179
Noncurrent assets:				
Special assessments - Long-term	-	-	-	-
Restricted assets - Noncurrent	-	-	-	1,262,995
Property, plant, and equipment:				
Construction in progress	352,121	393,432	90,462	453,903
Land and land improvements	48,165	148,722	677,140	10,844,740
Buildings and structures	27,322,905	19,211,967	20,299,208	895,452
Water and sewer lines	34,283,397	40,167,496	-	-
Vehicles	54,679	58,550	-	545,524
Equipment	1,959,758	1,491,025	690,886	458,660
Total property, plant, and equipment	64,021,025	61,471,192	21,757,696	13,198,279
Accumulated depreciation	(31,173,453)	(17,834,448)	(7,519,667)	(7,535,439)
Net property, plant, and equipment	32,847,572	43,636,744	14,238,029	5,662,840
Other assets:				
Investment in joint venture	7,965,900	-	-	-
Other property and investments	-	704,678	-	-
Total other assets	7,965,900	704,678	-	-
Total assets	48,725,645	47,615,915	15,894,404	12,983,014

Proprietary Funds
Statement of Net Assets
June 30, 2006

Funds

Civic Arena	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 121,342	\$ 50,063	\$ 11,986,474	\$ 6,920,395
-	303,263	303,263	-
8,770	12,781	2,820,729	63,748
-	140	44,545	94,733
-	-	1,716,709	13,415
84,688	-	480,857	150,000
5,283	21,000	26,283	285,185
-	-	2,128,690	25,000
220,083	387,247	19,507,550	-
-	-	-	7,552,476
-	-	1,262,995	328,329
-	-	1,289,918	-
488,347	5,988,830	18,195,944	45,000
8,494,150	2,746,219	78,969,901	55,000
-	-	74,450,893	3,056,607
-	76,716	735,469	-
971,162	246,973	5,818,464	12,759,515
9,953,659	9,058,738	179,460,589	3,386,815
(159,076)	(1,975,030)	(66,197,113)	19,302,937
9,794,583	7,083,708	113,263,476	(11,945,698)
-	-	7,965,900	-
-	-	704,678	-
-	-	8,670,578	-
10,014,666	7,470,955	142,704,599	15,238,044

City of Midland, Michigan

	Business-type Activities - Enterprise			
	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Liabilities				
Current liabilities:				
Accounts payable	\$ 259,703	\$ 383,134	\$ 49,047	\$ 67,773
Accrued salaries and wages	66,573	36,761	21,402	17,708
Accrued compensated absences	157,649	80,935	40,553	64,763
Due to other funds	-	-	9,000	-
Due to other governments	30,273	-	-	-
Deposits	744	-	58,181	-
Payable from restricted assets:				
Accrued interest	59,483	107,997	-	-
Current portion - Bonds payable	1,155,000	755,000	-	-
Total current liabilities	<u>1,729,425</u>	<u>1,363,827</u>	<u>178,183</u>	<u>150,244</u>
Noncurrent liabilities:				
Payable from restricted assets - Guarantee deposits	51,210	-	-	-
Bonds payable - Long-term	3,465,000	15,619,063	-	-
Accrued compensated absences	244,803	89,967	56,578	26,357
Accrued landfill closure and postclosure care cost	-	-	-	3,022,000
Total noncurrent liabilities	<u>3,761,013</u>	<u>15,709,030</u>	<u>56,578</u>	<u>3,048,357</u>
Total liabilities	<u>5,490,438</u>	<u>17,072,857</u>	<u>234,761</u>	<u>3,198,601</u>
Net Assets				
Investment in capital assets - Net of related debt	28,227,572	27,262,681	14,238,029	5,662,840
Restricted for:				
Revenue bond retirement	1,219,000	-	-	-
Emergency repair	25,000	-	-	-
Unrestricted	<u>13,763,635</u>	<u>3,280,377</u>	<u>1,421,614</u>	<u>4,121,573</u>
Total net assets	<u>\$ 43,235,207</u>	<u>\$ 30,543,058</u>	<u>\$ 15,659,643</u>	<u>\$ 9,784,413</u>

Total net assets of the Internal Service Funds allocable to the business-type activities

Total

Proprietary Funds
Statement of Net Assets (Continued)
June 30, 2006

Funds			
Civic Arena	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 34,010	\$ 343,446	\$ 1,137,113	\$ 99,902
-	-	142,444	40,776
-	-	343,900	112,473
1,707,709	-	1,716,709	-
-	-	30,273	-
-	-	58,925	-
40,635	-	208,115	-
470,000	-	2,380,000	-
<u>2,252,354</u>	<u>343,446</u>	<u>6,017,479</u>	<u>253,151</u>
-	-	51,210	-
5,585,000	-	24,669,063	-
-	-	417,705	117,839
-	-	3,022,000	-
<u>5,585,000</u>	<u>-</u>	<u>28,159,978</u>	<u>117,839</u>
<u>7,837,354</u>	<u>343,446</u>	<u>34,177,457</u>	<u>370,990</u>
3,739,583	7,083,708	86,214,413	7,357,239
-	-	1,219,000	-
-	-	25,000	-
<u>(1,562,271)</u>	<u>43,801</u>	<u>21,068,729</u>	<u>7,509,815</u>
<u>\$ 2,177,312</u>	<u>\$ 7,127,509</u>	108,527,142	<u>\$ 14,867,054</u>
		<u>4,374,182</u>	
		<u>\$ 112,901,324</u>	

City of Midland, Michigan

	Business-type Activities - Enterprise			
	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Operating Revenue				
Service charges	\$ -	\$ 4,513,338	\$ -	\$ -
Water sales	7,391,171	-	-	-
Use and admission charges	-	-	-	3,217,430
Rentals	378,353	-	2,229,384	-
Fines and forfeits	66,770	60,288	-	2,144
Miscellaneous revenue	-	-	-	-
Total operating revenue	7,836,294	4,573,626	2,229,384	3,219,574
Operating Expenses				
Operations	3,192,318	1,023,045	2,041,420	1,979,811
Administration	1,083,624	620,798	-	-
Maintenance	2,432,321	1,408,100	-	-
Depreciation	1,185,662	1,437,258	438,220	270,134
Total operating expenses	7,893,925	4,489,201	2,479,640	2,249,945
Net Operating Income (Loss)	(57,631)	84,425	(250,256)	969,629
Nonoperating Revenue (Expenses)				
Investment earnings	258,791	95,516	70,272	208,914
Contractual revenues	1,041,852	-	-	-
Profit (loss) on disposition of assets	(1,881)	-	427	-
Sale of meals - Revenue	-	-	415,676	-
Sale of meals - Expense	-	-	(544,872)	-
Miscellaneous revenue	388,029	105,349	81,520	22,834
Interest expense	(508,746)	(535,818)	-	-
Miscellaneous expenses	(444,449)	(229,939)	(102,768)	(167,573)
Total nonoperating revenue (expenses)	733,596	(564,892)	(79,745)	64,175
Income (Loss) - Before capital contributions and operating transfers	675,965	(480,467)	(330,001)	1,033,804
Capital Contributions	519,266	160,000	-	-
Transfers In	-	1,731,917	60,000	-
Transfers Out	(90,000)	(100,000)	-	-
Change in Net Assets	1,105,231	1,311,450	(270,001)	1,033,804
Net Assets - Beginning of year	42,129,976	29,231,608	15,929,644	8,750,609
Net Assets - End of year	<u>\$ 43,235,207</u>	<u>\$ 30,543,058</u>	<u>\$ 15,659,643</u>	<u>\$ 9,784,413</u>

Change in Net Assets

Some amounts reported for business-type activities in the statement of activities are different because net revenue (expense) of certain internal services is reported with business-type activities

Change in net assets of business-type activities

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2006

Funds			
Civic Arena	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ -	\$ -	\$ 4,513,338	\$ 2,047,125
-	-	7,391,171	-
1,041,763	895,375	5,154,568	-
-	-	2,607,737	3,086,107
-	-	129,202	-
-	-	-	69,051
1,041,763	895,375	19,796,016	5,202,283
1,028,812	873,204	10,138,610	4,933,587
-	-	1,704,422	-
-	71,900	3,912,321	-
159,077	169,692	3,660,043	1,349,421
1,187,889	1,114,796	19,415,396	6,283,008
(146,126)	(219,421)	380,620	(1,080,725)
-	13,363	646,856	205,848
-	-	1,041,852	-
-	(42,735)	(44,189)	264,092
-	-	415,676	-
-	-	(544,872)	-
92,512	(10,963)	679,281	319,243
(305,084)	-	(1,349,648)	-
-	-	(944,729)	(305,700)
(212,572)	(40,335)	(99,773)	483,483
(358,698)	(259,756)	280,847	(597,242)
1,769,991	-	2,449,257	109,206
2,533,828	35,000	4,360,745	610,164
(1,767,809)	-	(1,957,809)	-
2,177,312	(224,756)	5,133,040	122,128
-	7,352,265	103,394,102	14,744,926
\$ 2,177,312	\$ 7,127,509	\$ 108,527,142	\$ 14,867,054

\$ 5,133,040

108,371

\$ 5,241,411

City of Midland, Michigan

	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Cash Flows from Operating Activities				
Receipts from customers	\$ 7,871,419	\$ 4,516,125	\$ 2,235,686	\$ 2,994,406
Payment to suppliers	(4,479,469)	(1,261,287)	(1,062,259)	(1,121,512)
Payment to employees	(2,529,147)	(1,413,967)	(951,048)	(681,402)
Other receipts	-	-	-	-
Net cash provided by (used in) operating activities	862,803	1,840,871	222,379	1,191,492
Cash Flows from Noncapital Financing Activities				
Operating transfers in (governmental)	(90,000)	1,631,917	60,000	-
Additional transfers in (out)	(435,216)	105,350	-	-
Nonoperating revenues	(56,420)	(229,939)	(150,444)	(144,739)
Net cash provided by (used in) noncapital financing activities	(581,636)	1,507,328	(90,444)	(144,739)
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(1,009,543)	(701,701)	(114,113)	(721,012)
Proceeds from bonds payable	-	9,480,000	-	-
Principal payments on bonds, notes and contracts payable	(1,155,000)	(10,815,000)	-	-
Interest paid	(295,955)	(1,165,212)	-	-
Contractual revenues	1,041,852	-	-	-
Proceeds from sale of capital assets	-	-	6,095	-
Net cash used in capital and related financing activities	(1,418,646)	(3,201,913)	(108,018)	(721,012)
Cash Flows from Investing Activities				
Investment earnings	260,775	96,602	71,332	213,999
Interfund loan to Civic Arena	-	-	-	(1,707,709)
Net cash provided by (used in) investing activities	260,775	96,602	71,332	(1,493,710)
Net Increase (Decrease) in Cash and Cash Equivalents	(876,704)	242,888	95,249	(1,167,969)
Cash and Cash Equivalents - Beginning of year	6,590,034	2,119,085	1,548,351	6,220,604
Cash and Cash Equivalents - End of year	\$ 6,148,546	\$ 2,361,973	\$ 1,643,600	\$ 5,052,635
Cash and Equivalents reported on Statement of Net Assets as Follows:				
Cash and equivalents	\$ 4,882,853	\$ 1,498,976	\$ 1,643,600	\$ 3,789,640
Restricted assets - Current	1,265,693	862,997	-	-
Restricted assets - Noncurrent	-	-	-	1,262,995
Net cash and equivalents	\$ 6,148,546	\$ 2,361,973	\$ 1,643,600	\$ 5,052,635
Noncash Investing Activities - Changes in fair value of investments	\$ -	\$ -	\$ -	\$ -
Noncash Capital Financing Activities - Developer contributions	\$ 519,266	\$ 160,000	\$ -	\$ -

**Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2006**

Civic Arena	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 1,027,710	\$ 888,102	\$ 19,533,448	\$ 5,165,259
(785,183)	(468,284)	(9,177,994)	(3,029,648)
(294,307)	(467,933)	(6,337,804)	(1,801,359)
92,512	1,761	94,273	15,859
40,732	(46,354)	4,111,923	350,111
1,761,010	35,000	3,397,927	(389,836)
-	-	(329,866)	-
-	-	(581,542)	(318,234)
1,761,010	35,000	2,486,519	(708,070)
(9,178,660)	(1,251)	(11,726,280)	(1,440,788)
6,500,000	-	15,980,000	-
1,707,709	-	(12,415,000)	-
(445,000)	-	(1,716,324)	(96,594)
(255,157)	-	1,041,852	-
-	-	6,095	274,825
(1,671,108)	(1,251)	(8,829,657)	(1,262,557)
(9,292)	703	634,119	308,689
-	-	(1,272,493)	-
(9,292)	703	(638,374)	308,689
121,342	(11,902)	(2,869,589)	(1,311,827)
-	61,965	16,540,039	8,232,222
\$ 121,342	\$ 50,063	\$ 15,378,159	\$ 6,920,395
\$ 121,342	\$ 50,063	\$ 11,986,474	\$ 6,920,395
-	-	2,128,690	-
-	-	1,262,995	-
\$ 121,342	\$ 50,063	\$ 15,378,159	\$ 6,920,395
\$ -	\$ (42,835)	\$ (42,735)	\$ -
\$ -	\$ -	\$ 679,266	\$ 109,206

City of Midland, Michigan

	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (57,631)	\$ 84,425	\$ (250,256)	\$ 969,629
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	1,185,662	1,437,258	438,220	270,134
Gain on investment in joint venture	(435,216)	-	-	-
Miscellaneous cash received (paid)	-	-	-	-
Changes in operating assets and liabilities:				
Accounts receivable	32,594	(57,501)	9,177	(225,168)
Due from (to) other funds	(4,239)	-	-	-
Inventory	21,543	-	-	-
Prepaid items				
Accounts payable	38,766	352,669	8,549	29,444
Accrued salaries and wages	17,192	10,321	5,289	5,190
Customer deposits received	(20,436)	-	14,275	-
Customer deposits returned	22,967	-	(2,875)	-
Accrued landfill closure costs	-	-	-	133,000
Compensated absences, death benefits, and workers' compensation	61,601	13,699	-	9,263
Net cash provided by (used in) operating activities	<u>\$ 862,803</u>	<u>\$ 1,840,871</u>	<u>\$ 222,379</u>	<u>\$ 1,191,492</u>

Proprietary Funds
Statement of Cash Flows (Continued)
Year Ended June 30, 2006

Civic Arena	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ (146,126)	\$ (219,421)	\$ 380,620	\$ (1,080,725)
159,077	169,692	3,660,043	1,349,421
-	-	(435,216)	-
92,512	1,761	94,273	15,859
(14,053)	(7,273)	(262,224)	(37,024)
-	-	(4,239)	-
(84,688)	-	(63,145)	86,818
	(21,000)	(21,000)	
34,010	29,887	493,325	(3,039)
-	-	37,992	11,933
-	-	(6,161)	-
-	-	20,092	-
-	-	133,000	-
-	-	84,563	6,868
<u>\$ 40,732</u>	<u>\$ (46,354)</u>	<u>\$ 4,111,923</u>	<u>\$ 350,111</u>

City of Midland, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

	Agency Funds	Pension and Other Employee Benefit Trust Funds
Assets		
Cash and cash equivalents	\$ 9,099	\$ 1,382,156
Investments:		
Common stock	-	23,139,196
Preferred stock	-	1,716,364
Bonds	-	7,839,546
U.S. government securities	-	419,275
Mortgage and asset-backed securities	-	4,318,718
International funds	-	10,574,787
Receivables - Net of allowances for uncollectibles:		
Accounts and contracts	42,939	225
Accrued interest receivable	31	107,763
Total assets	52,069	<u>\$ 49,498,030</u>
Liabilities		
Accounts payable	2,000	\$ -
Due to other governmental units	50,069	-
Total liabilities	<u>52,069</u>	-
Net Assets		
Held in trust for pension benefits	-	49,237,712
Held in trust for postemployment health benefits	-	260,318
Total net assets	<u>\$ -</u>	<u>\$ 49,498,030</u>

City of Midland, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Pension and Other Employee Benefit Trust Fund
Additions	
Contributions:	
Employer	\$ 2,407,158
Employee	493,484
Total contributions	2,900,642
Investment income:	
Net appreciation in fair value of assets	3,208,504
Interest	957,529
Dividends	570,301
Total investment income	4,736,334
Less investment expenses	(348,530)
Net investment income	4,387,804
Total additions	7,288,446
Deductions - Benefit payments	3,261,210
Special Item - Transfer of RHC assets to MERS (Note 12)	11,610,236
Change in Net Assets	(7,583,000)
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	57,081,030
End of year	\$ 49,498,030

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Midland, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Midland, Michigan:

Reporting Entity

The City is a municipal corporation governed by an elected five-member City Council (the "Council"), which biannually selects one of its members to serve as mayor. The City operates under a Council-Manager form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations, and data from these units are therefore combined with data from the primary government.

Blended Component Unit

Midland Downtown Development Authority - The Midland Downtown Development Authority (MDDA) was established in 1987 for the purpose of maintaining and renovating the downtown Midland area. The MDDA is administered by a 13-person board, which is appointed by the City Council. Funding for the MDDA is provided by a two-mill levy on property within the district and by tax increment financing. All projects initiated by the MDDA are considered public improvements to the City's infrastructure, parks, or parking facilities. Since the MDDA is used exclusively as a financing source for City facilities, it has been blended into the financial statements of the City as a Special Revenue Fund. The MDDA has a June 30 year end.

Joint Ventures

Saginaw-Midland Municipal Water Supply Corporation - The Saginaw-Midland Municipal Water Supply Corporation (SMMWSC), located approximately eight miles east of the city of Midland, is an authority incorporated by the cities of Midland and Saginaw, Michigan, under Act 233, Public Acts of Michigan, 1955, as amended. The SMMWSC is administered by a six-member board of trustees, each community appointing three members, and is empowered to prepare, adopt, and submit to the legislative bodies of each municipality an annual budget covering estimated revenues, proposed expenditures, and the necessary funds required from each municipality for the next fiscal year.

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Funding for the acquisition of property and for the development and improvement of the water supply system is provided by sale of SMMWSC negotiable bonds secured by the full faith and credit of each municipality in a ratio based upon predetermined capacity reserves; 20/43rds for the City of Midland and 23/43rds for the City of Saginaw. Funding for operations is provided by sale of water to the two communities on a consumption basis. The City's equity in the SMMWSC is accounted for in the Water Fund, which is included in the business-type activities column of the statement of net assets.

A summary of the financial information for the year ended June 30, 2006 follows:

Total assets	\$ 40,238,160
Total liabilities	23,533,523
Equity - City of Midland	7,769,599
Equity - City of Saginaw	8,935,038
Total revenues	4,998,655
Total expenses	4,062,940
Net income	935,715

At June 30, 2006, total outstanding bonded debt of the SMMWSC was \$22,245,000. The City was obligated for \$10,811,628 of this total.

Midland City/County Joint Building Authority - The City's ownership interest in the Midland City/County Joint Building Authority is accounted for in the governmental activities column of the statement of net assets. The Authority was created as a financing vehicle for the Midland Law Enforcement Center. The Law Enforcement Center is leased from the Joint Building Authority (JBA) by the City of Midland Police Department, the Midland County Sheriff Department, and the Midland County Central Dispatch Authority. The JBA is governed by a three-person board with the City and County each appointing one member and with the third member being mutually appointed. Additional information concerning the Joint Building Authority and its lease with the City is detailed in Note 8 - Leases.

General - Complete financial statements, which are audited for the Saginaw-Midland Municipal Water Supply Corporation and the Midland City/County Joint Building Authority, are available from the city clerk's office.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating parties in the near future for any of the above organizations.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay current period liabilities.

For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses, interest, and special assessments are susceptible to accrual. Sales and motor fuel taxes collected and held by the State at fiscal year end on behalf of the City are also recognized as revenue of the current fiscal period. Other receipts become measurable and available when cash is received by the City and are recognized as revenue at that time.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Street Fund accounts for state-shared revenues relating to construction activities, repairs, and maintenance of all major streets and trunklines.

The City reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the City's water supply system, capital additions, and retirement of bonds.
- The Wastewater Fund accounts for the operation and maintenance of the City's sewage disposal system, capital additions and improvements, and retirement of bonds.
- The Landfill Fund accounts for the operation and maintenance of the City's trash and garbage disposal system.
- The Civic Arena Fund accounts for the operations and maintenance of the City's ice arena facility, capital additions, and retirement of debt.

Note 1 - Summary of Significant Accounting Policies (Continued)

- The Real Estate Rental Fund accounts for the operation and maintenance of the City's various senior housing rental properties.

Additionally, the City reports the following Internal Service Funds:

- The Data Processing Fund accounts for the operations of the City's Information Services Department.
- The Geographical Information Systems Fund accounts for operations of the City's geographic information systems.
- The Equipment Revolving Fund accounts for the rental charges of City-owned equipment to other City departments.
- The Service Center Rental Fund accounts for the operations of the City's Service Center building.
- The Insurance Claims Fund accounts for insurance expenses resulting from property and liability claims.
- The Special Assessment Revolving Fund accounts for the funding of the City's special assessment projects.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Because these funds represent trust responsibilities of the City, these assets are restricted in purpose and do not represent discretionary assets of the City. The Police and Fire Retirement Fund and the Post-Employment Health Care Plan Fund are fiduciary funds of the City. The City's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets.

The Agency Funds account for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. The portion intended to recover the cost of infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the City, as well as for its component unit, are reported at fair value.

Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payables" or "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Note 1 - Summary of Significant Accounting Policies (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance at June 30, 2006 is equal to 100 percent of outstanding property taxes over four years old plus 4 percent of outstanding property taxes less than five years old.

Properties are assessed annually as of December 31, and property taxes are billed and become a lien on July 1 of the following year. These taxes are due on September 15 with a final collection date of February 28 before they are added to the county tax roll. The City also bills and collects an amount each December, primarily for schools, county, and college. Also included in the December billing is a tax administration fee, which is revenue to the City. The December billing is due on February 14 with a final collection date of February 28. Penalties and interest are assessed on payments received after the due date.

The 2005 taxable valuation of the City totaled \$2,432,040,700, on which ad valorem taxes levied consisted of 9.17 mills for the City's operating purposes and debt levies equaling .62 mills. This resulted in \$22,305,088 for operating and \$1,507,865 for debt service. The ad valorem taxes levied are recognized in the respective General, Special Revenue, and Water and Sewer Fund financial statements as taxes receivable - current or as tax revenue.

Inventories and Prepaid Items - Inventories are valued at cost on an average cost method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets - Certain resources set aside for debt service on the City's Enterprise Fund revenue bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Additionally, certain resources set aside for closure and postclosure costs for the enterprise landfill operation are classified as restricted assets because their use is limited by applicable State regulations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Projects with total costs of less than \$10,000 are considered repair and are expensed in the year incurred. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Building improvements	20 years
Land improvements	50 years
Roads and sidewalks	20-30 years
Water and sewer distribution systems	50 years
Vehicles	3-10 years
Equipment	10 years
Library circulation material	5 years
Computer equipment	4 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is fully vested when earned, and sick pay is conditionally vested upon completion of 10 years of service. Upon retirement, employees are paid accumulated vacation and one-half of unused sick days at their hourly rate as of their retirement date.

All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for the entire amount, current and long-term, is accrued in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Note I - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection on building construction renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 follows:

Shortfall at July 1, 2005		\$	(278,617)
Current year building permit revenue			386,037
Related expenses:			
Direct costs	\$	393,692	
Estimated indirect costs		<u>23,622</u>	
Total construction code expenses			<u>417,314</u>
Cumulative shortfall at June 30, 2006		\$	<u>(309,894)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The City Council has designated nine financial institutions for the deposit of Local Unit funds. The investment policy adopted by the City in accordance with Public Act 20 of 1943 (as amended) authorizes investments in U.S. Treasuries, U.S. agencies and instrumentalities, certificates of deposit, commercial paper (meeting certain rating and maturity requirements), repurchase agreements, investment pools, bankers' acceptances of U.S. banks, and mutual funds. Repurchase agreements must be signed with the bank or dealer and must contain provisions comparable to those outlined in the Public Security Association's model Master Repurchase Agreement. The treasurer may invest in investment pools organized under the Surplus Funds Investment Pool Act of 1982 and under the Urban Cooperation Act of 1967.

For mutual funds, the treasurer may invest in funds registered under the Investment Company Act of 1940. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share and investment vehicles that are legal for direct investment by a public corporation.

The above-mentioned City investment policy applies to all financial assets of the City except for its Post Retirement Health Care Fund and the Police and Fire Retirement System Fund, which are organized and administered separately. Investments are made pursuant to provisions of the Public Employee Retirement System Investment Act of 1965. Michigan Public Act 314 of 1965 and Michigan Public Act 149 of 1999, as amended, authorize investments in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$59,821,329 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits its funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
Commercial paper	\$ 9,528,870	0.181
Government bonds	1,575,823	9.699
Asset and mortgage-backed securities	4,318,718	23.532
Corporate bonds	7,839,546	15.589
International bonds	1,162,900	16.890

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Organization
Interlocal Agreement Fund	\$ 233,621	Not Rated	N/A
Bank Investment Pooled Funds	2,136,042	Not Rated	N/A
Commercial paper	9,528,870	A1	S & P
Government bonds	53,745	AA-	S & P
Money market funds	1,278,897	AAA	S & P
Money market funds	1,046,038	Not Rated	N/A
Mutual funds	2,175,600	Not Rated	N/A
Asset and mortgage-backed securities	4,318,718	AAA	S & P
Corporate bonds	185,013	AA	S & P
Corporate bonds	575,113	AA-	S & P
Corporate bonds	797,975	A+	S & P
Corporate bonds	772,523	A	S & P
Corporate bonds	933,903	A-	S & P
Corporate bonds	1,047,163	BBB+	S & P
Corporate bonds	1,141,348	BBB	S & P
Corporate bonds	1,027,572	BBB-	S & P
Corporate bonds	607,588	BB+	S & P
Corporate bonds	380,275	Not Rated	N/A
Corporate bonds	250,700	Aa3	Moody's
Corporate bonds	120,375	Baa2	Moody's
International bonds	253,813	A+	S & P
International bonds	182,000	BBB+	S & P
International bonds	209,588	BBB	S & P
International bonds	517,500	BBB-	S & P

City of Midland, Michigan

Note 4 - Interfund Transfers, Receivables, and Payables

Interfund transfers reported in the fund statements for the year ended June 30, 2006 were as follows:

	Transfers Out						
	General Fund	Major Street Fund	Local Street Fund	Storm Water Mgmt. Fund	Community Develop Block Grant	Downtown Develop. Auth. Fund	Special Activities Fund
Transfers in:							
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Major Street Fund	-	-	90,000	-	-	-	-
Local Street Fund	-	1,356,250	-	-	-	-	-
Storm Water Mgmt. Fund	290,000	137,035	120,870	-	-	-	-
Downtown Develop Auth.	-	98,903	-	-	-	-	-
Transportation Fund	613,312	-	-	-	-	-	-
Grace A. Dow Library Fund	2,774,892	-	-	-	4,000	-	-
Debt Fund	194,386	-	-	-	-	88,438	-
Capital Projects Fund	1,268,387	-	18,000	176,255	-	-	1,750
Civic Arena Fund	200,000	-	-	-	-	-	-
Real Estate Rental Fund	-	-	-	-	60,000	-	-
Wastewater Fund	-	-	-	-	-	-	-
Parking Fund	-	-	-	-	-	35,000	-
Geographic Info Sys Fund	237,500	31,250	31,250	-	-	-	-
Special Assessment Rev.	-	-	-	-	-	-	-
Total	<u>\$ 5,578,477</u>	<u>\$ 1,623,438</u>	<u>\$ 260,120</u>	<u>\$ 176,255</u>	<u>\$ 64,000</u>	<u>\$ 123,438</u>	<u>\$ 1,750</u>

In fiscal year 2005, the Civic Arena project was included in construction in progress on the governmental-type funds. Beginning with the 2006 fiscal year, the City has transferred this capital asset to the Civic Arena activity in an Enterprise Fund. Therefore, the government-wide activities include an additional interfund transfer of \$994,991.

The transfer from the General Fund to the Grace A. Dow Memorial Library Fund represents the use of unrestricted resources to finance that program, in accordance with budgetary authorizations. The transfer from the General Fund to the Capital Projects Fund represents funding of construction projects from unrestricted resources, in accordance with budgetary authorizations. The transfer from the Major Street Fund to the Local Street Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51. The transfer from the Debt Fund to the Wastewater Fund is necessary to transfer an additional millage for debt retirement to the Wastewater Fund, which is the fund that accounts for the related debt.

Notes to Financial Statements June 30, 2006

Transfers Out					
Debt Fund	Capital Projects Fund	Civic Arena Fund	Wastewater Fund	Water Fund	Total
\$ -	\$ 214,364	\$ -	\$ -	\$ -	\$ 214,364
-	-	-	-	-	90,000
-	-	-	-	-	1,356,250
-	50,927	-	-	-	598,832
-	-	-	-	-	98,903
-	-	-	-	-	613,312
-	-	-	-	-	2,778,892
-	-	-	-	-	282,824
-	-	1,967,809	-	-	3,432,201
-	2,533,828	-	-	-	2,733,828
-	-	-	-	-	60,000
1,731,917	-	-	-	-	1,731,917
-	-	-	-	-	35,000
-	-	-	100,000	90,000	490,000
-	120,164	-	-	-	120,164
<u>\$ 1,731,917</u>	<u>\$ 2,919,283</u>	<u>\$ 1,967,809</u>	<u>\$ 100,000</u>	<u>\$ 90,000</u>	<u>\$ 14,636,487</u>

The composition of interfund balances as of June 30, 2006 was as follows:

Receivable Fund	Payable Fund	Amount
Special Assessment Revolving	Midland Housing	\$ 150,000
Community Development Block Grant	Midland Housing	145,898
Landfill	Real Estate Rental	9,000
Landfill	Civic Arena	1,707,709
Total		<u>\$ 2,012,607</u>

The balance owing from the Midland Housing Fund to the Community Development Block Grant (CDBG) Fund represents remaining balances on mortgages subsidized by the CDBG Fund. The remaining three resulted from loans made for working capital purposes.

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated:				
Land	\$ 3,368,554	\$ 48,806	\$ 562	\$ 3,416,798
Construction in progress	13,939,761	7,955,742	17,330,877	4,564,626
Total capital assets not depreciated	17,308,315	8,004,548	17,331,439	7,981,424
Capital assets being depreciated:				
Major and local roads	8,524,714	4,537,681	-	13,062,395
Sidewalks	259,206	299,021	-	558,227
Buildings	22,943,000	100,028	-	23,043,028
Land improvements	1,885,269	2,875,570	-	4,760,839
Library circulation materials	6,575,821	429,819	323,171	6,682,469
Equipment	8,522,120	828,464	78,378	9,272,206
Vehicles	13,219,026	1,172,917	569,531	13,822,412
Total capital assets being depreciated	61,929,156	10,243,500	971,080	71,201,576
Total capital assets before depreciation	79,237,471	18,248,048	18,302,519	79,183,000
Less accumulated depreciation:				
Major and local roads	342,396	507,031	-	849,427
Sidewalks	9,063	19,834	-	28,897
Buildings	8,795,659	436,546	-	9,232,205
Land improvements	204,530	70,797	-	275,327
Library circulation materials	5,270,971	445,414	323,171	5,393,214
Equipment	6,830,018	441,950	58,851	7,213,117
Vehicles	6,965,164	1,220,505	546,397	7,639,272
Subtotal	28,417,801	3,142,077	928,419	30,631,459
Net capital assets being depreciated	33,511,355	7,101,423	42,661	40,570,117
Net governmental activities capital assets	<u>\$ 50,819,670</u>	<u>\$ 15,105,971</u>	<u>\$ 17,374,100</u>	<u>\$ 48,551,541</u>

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,316,680	\$ -	\$ -	\$ 2,316,680
Construction in progress	976,463	1,971,283	1,657,828	1,289,918
Total capital assets not being depreciated	3,293,143	1,971,283	1,657,828	3,606,598
Capital assets being depreciated:				
Water and sewer lines	71,969,281	2,481,612	-	74,450,893
Buildings and building improvements	70,440,819	8,529,082	-	78,969,901
Land improvements	5,542,796	488,342	-	6,031,138
Landfill improvements	9,798,091	50,031	-	9,848,122
Equipment	4,715,470	1,128,536	25,542	5,818,464
Vehicles	580,164	189,105	33,800	735,469
Total capital assets being depreciated	163,046,621	12,866,708	59,342	\$ 175,853,987
Less accumulated depreciation:				
Water and sewer lines	23,502,533	1,494,978	-	24,997,511
Buildings and building improvements	27,667,001	1,520,815	-	29,187,816
Land improvements	1,021,275	116,444	-	1,137,719
Landfill improvements	6,667,843	183,560	-	6,851,403
Equipment	3,354,706	307,093	18,378	3,643,421
Vehicles	375,886	37,153	33,800	379,239
Total accumulated depreciation	62,589,244	3,660,043	52,178	66,197,109
Net capital assets being depreciated	100,457,377	9,206,665	7,164	109,656,878
Net business-type activities capital assets	\$ 103,750,520	\$ 11,177,948	\$ 1,664,992	\$ 113,263,476

Note 5 - Capital Assets (Continued)

During the current year, the City established a separate Enterprise Fund to account for civic arena activities. In prior years, this activity was included in the General Fund and any activity relating to the construction of the new civic arena was reported as governmental activity. The current year financial statements reflect the transfer of these activities from governmental to business-type activities.

The civic arena project was not completed until the current year. As such, the prior year governmental activities included approximately \$7.5 million of construction in progress (CIP) relating to the construction of the new civic arena. These costs are included in the beginning CIP balance for governmental activities as reported in this footnote. Further, current year project costs of approximately \$2.5 million are included in CIP additions, and the total completed project costs of approximately \$10 million are included in CIP disposals within the governmental activities. The completed project assets were then transferred from governmental to business-type activities and capitalized as completed assets within the business-type activities.

Depreciation expense charged to programs of the government follows:

Governmental activities:

General government	\$ 483,594
Public safety	293,278
Public works	1,128,025
Sanitation	78,391
Parks and recreation	318,054
Library	672,086
Airport	22,344
Transportation	137,018
Other functions	9,287

Total governmental activities	<u>\$ 3,142,077</u>
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Business-type activities:

Civic Arena	\$ 159,077
Landfill	270,134
Real estate rental	438,220
Golf course	131,309
Parking system	38,383
Wastewater	1,437,258
Water	1,185,662

Total business-type activities	<u>\$ 3,660,043</u>
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City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects as of June 30, 2006. The projects include landfill, sewer, sidewalk, storm sewer, streets, water, and wastewater improvements. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Landfill projects	\$ 56,504	\$ 651
Sidewalk projects	472	60,214
Storm sewer projects	-	23,391
Street projects	1,707,112	1,398,837
Water system projects	77,421	240,766
Total	<u>\$ 1,841,509</u>	<u>\$ 1,723,859</u>

Infrastructure assets have not been retroactively recorded, and will be within one year, as allowed under GASB 34.

Note 6 - Restricted Assets

Enterprise Funds - Cash and cash equivalents are restricted within the Water and Wastewater Funds for future debt service obligations in the amounts of \$1,265,693 and \$862,997, respectively. Within each of these funds, an offsetting liability "payable from restricted assets" designates the separation of these assets from unreserved assets. In addition, the Landfill Fund has \$1,262,995 of restricted assets that are for closure and postclosure costs.

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2006, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Grant money received in excess of expenses - Transportation Fund	\$ -	\$ 10,004
Grant money earned but not received - Transportation Fund	56,742	-
Total deferred/unearned for governmental funds	<u>\$ 56,742</u>	<u>\$ 10,004</u>

Note 8 - Leases

Operating Leases

The City leases its police administration facility and landfill equipment under non-cancelable operating leases. Total costs for such leases were \$453,652 for the year ended June 30, 2006. According to the terms of its lease with the Midland City/County Joint Building Authority, the City's obligation for operating leases amounts to 64.8 percent of total operating expenses of the police administration facility.

The future minimum lease payments for these leases, including estimates of obligations under the police administration facility lease areas, are as follows:

Years Ending June 30	Amount
2007	\$ 328,027
2008	299,365
2009	233,615
2010	240,623
2011	247,842
2012-2016	<u>1,355,299</u>
Total	<u>\$ 2,704,771</u>

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Leases (Continued)

Capital Leases

The City has entered into a lease agreement with the Midland City/County Joint Building Authority as lessee for financing the construction of police administration facilities. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The total cost of this lease was \$212,899 for the year ended June 30, 2006. Payments under this lease agreement for the year ended June 30, 2006 totaled \$212,899, including \$44,955 of interest charges.

The future minimum lease obligation and net present value as of June 30, 2006 are as follows:

<u>Years Ending</u> <u>June 30</u>	<u>Amount</u>
2007	\$ 206,200
2008	215,495
2009	207,530
2010	215,703
2011	223,005
2012-2013	<u>428,078</u>
Total minimum lease payments	1,496,011
Less amount representing interest	<u>165,501</u>
Present value of minimum lease payments	<u>\$ 1,330,510</u>

Note 9 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds, which are direct obligations and pledge the full faith and credit of the City, have been issued for both governmental and business-type activities. Revenue bonds involve a pledge of specific income derived from the acquired or constructed asset to pay debt service and have been issued for business-type activities.

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
<u>General obligation bonds</u>							
2004 Civic Arena							
Amount of issue: \$6,500,00	2.50% -	\$135,000 -					
Maturing through: May 2030	4.75%	\$490,000	\$ 6,500,000	\$ -	\$ (6,500,000)	\$ -	\$ -
1992 Downtown Development							
Amount of issue: \$600,000	5.65% -	\$50,000 -					
Maturing through: September 2007	6.05%	\$100,000	250,000	-	(75,000)	175,000	75,000
Capital lease (Note 8)			1,498,454	-	(167,944)	1,330,510	166,287
Total bond and capital lease			8,248,454	-	(6,742,944)	1,505,510	241,287
<u>Other long-term obligations</u>							
Compensated absences			3,579,931	256,688	(252)	3,836,367	1,612,981
Property tax appeals contingency reserve refunds (Note 17)			31,171,066	490,104	-	31,661,170	19,736,654
Total other long-term obligations			34,750,997	746,792	(252)	35,497,537	21,349,635
Total governmental activities			42,999,451	746,792	(6,743,196)	37,003,047	21,590,922
Business-type Activities							
<u>General obligation bonds</u>							
1989 Sewer Construction:							
Amount of issue: \$900,000							
Maturing through: October 2005	6.00%	\$400,000	400,000	-	(400,000)	-	-
1990 Sewer Construction:							
Amount of issue - \$3,400,000							
Maturing through: October 2005	4.75%	\$725,000	725,000	-	(725,000)	-	-
2001 Sewer Construction:							
Amount of issue: \$13,600,000	4.50% -	\$375,000 -					
Maturing through: May 2021	5.25%	\$1,100,000	12,225,000	-	(9,475,000)	2,750,000	475,000
2001 Sewer Construction - State Revolving Fund:							
Amount of issue: \$5,130,000							
Borrowed as of 6/30/03: \$4,688,961		\$205,000 -					
Maturing through: April 2022	2.50%	\$320,000	4,359,063	-	(215,000)	4,144,063	220,000
2004 Civic Arena							
Amount of issue: \$6,500,000	2.50% -	\$135,000 -					
Maturing through: May 2030	4.75%	490,000	-	6,500,000	(445,000)	6,055,000	470,000
2005 Sewer Refunding Bonds							
Amount of issue: \$9,480,000	2.95% -	\$135,000 -					
Maturing through: May 2021	4.15%	490,000	-	9,480,000	-	9,480,000	60,000
<u>Revenue bonds</u>							
2000 Water Rev Refunding:							
Amount of issue: \$12,190,000	4.80% -	\$1,155,000 -					
Maturing through: April 2010	5.30%	1,390,000	5,775,000	-	(1,155,000)	4,620,000	1,155,000
Total bonds obligations			23,484,063	15,980,000	(12,415,000)	27,049,063	2,380,000
<u>Other long-term obligations</u>							
Compensated absences			662,767	98,837	-	761,604	343,900
Landfill closure and postclosure (Note 10)			2,889,000	133,000	-	3,022,000	-
Total other long-term obligations			3,551,767	231,837	-	3,783,604	343,900
Less current portion payable from restricted assets (Note 6)			2,945,000	-	(1,035,000)	1,910,000	1,910,000
Total business-type activities			24,090,830	16,211,837	(11,380,000)	28,922,667	813,900
Total governmental and business-type activities			\$ 67,090,281	\$ 16,958,629	\$ (18,123,196)	\$ 65,925,714	\$ 22,404,822

Note 9 - Long-term Debt (Continued)

As reported in Note 5, during the current year the City established a separate Enterprise Fund to account for civic arena activities. In prior years, this activity was included in the General Fund and any activity relating to the construction of the new civic arena was reported as governmental activity. The current year financial statements reflect the transfer of these activities from governmental to business-type activities.

The prior year governmental activities included \$6.5 million in bonds payable that related to funding construction costs of the new civic arena. Those bonds are shown in the beginning balance of the governmental activities debt schedule within this note, and include a \$6.5 million reduction to reflect the transfer of that debt from governmental to business-type. Similarly, the business-type activities report these bonds with a zero beginning balance and a \$6.5 million addition. Future financial statements will report this debt issue as business-type activity.

Advance and Current Refundings - On September 13, 2005, the City issued \$9,480,000 of General Obligation Unlimited Tax Refund Bonds. The bonds were issued pursuant resolutions adopted by City Council on July 11, 2005 and August 22, 2005, and provide for an average interest rate of 3.95 percent. The proceeds of these bonds were used to advance refund \$9,025,000 of outstanding 2001 General Obligation Unlimited Tax Bonds with an average interest rate of 5.07 percent. The bond proceeds plus an additional \$191,000 from the Wastewater Fund were used to pay issuance costs of \$67,828, and purchase of \$9,603,172 of state and local government securities that will remain in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Wastewater Fund. The advanced refunding reduced total debt service payments over the next 16 years by approximately \$644,500, which represents an economic gain of approximately \$450,900.

The 1992 Downtown Development Bonds were issued pursuant to a tax increment financing plan and development plan for the Midland Downtown Development Area under authority of Act 197, Public Act of Michigan, 1975, as amended. The bonds were used to finance a portion of the Downtown Streetscape Project. The bonds are payable from tax increment revenues pursuant to the plan.

Note 9 - Long-term Debt (Continued)

The 2001 Sewer Construction Bonds were approved by the voters in a general election held on February 22, 2000. The City Council has approved a resolution to levy a millage to pay approximately 60 percent of the principal and interest cost of these bonds. The 40 percent balance of the obligation is to be repaid by fees from the users of the municipal sanitary sewage collection and treatment system. The proceeds are being used for construction of sewer facilities recorded as construction in progress in the Wastewater Fund. On September 12, 2005, General Obligation Unlimited Tax Bonds were issued to refund \$9,025,000 of the outstanding bond. See details above regarding advance and current refunding for more details.

On December 3, 2001, the City Council authorized issuance of general obligation limited tax bonds, series 2001, in the principal sum not to exceed \$5,130,000. The purpose of this issuance is to fund the construction of a storm water retention basin at the wastewater treatment plant. User fees will fund 40 percent of the principal and interest on these bonds, and the remaining 60 percent will be funded by a millage that the City will levy. The full faith and credit and the limited taxing power of the City are pledged for payment of the principal and interest thereon.

The City has pledged its full faith and credit on the bonded indebtedness of the Saginaw-Midland Municipal Water Supply Corporation, a jointly owned raw water system described in Note 1 - Summary of Significant Accounting Policies.

By statute, the City's general obligation debt is restricted to 10 percent of the equalized value of all property in the City. Certain obligations, such as water revenue refunding bonds, are not subject to this limitation. At June 30, 2006, the City's general obligation debt statutory and legal debt limit amounted to \$281,171,210 and the indebtedness subject to the limitation aggregated \$22,604,063.

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Long-term Debt (Continued)

Annual requirements to pay principal and interest on the long-term bonds and capital leases outstanding at June 30, 2006 are as follows:

Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 241,287	\$ 48,213	\$ 289,500	\$ 2,380,000	\$ 1,077,920	\$ 3,457,920
2008	280,572	37,948	318,520	2,460,000	979,775	3,439,775
2009	178,018	29,512	207,530	2,145,000	876,189	3,021,189
2010	191,537	24,166	215,703	2,200,000	778,202	2,978,202
2011	204,573	18,432	223,005	1,095,000	676,828	1,771,828
2012-2016	409,523	18,555	428,078	6,295,000	2,758,151	9,053,151
2017-2021	-	-	-	7,600,000	1,530,673	9,130,673
2022-2026	-	-	-	1,534,063	514,128	2,048,191
2027-2031	-	-	-	1,340,000	162,530	1,502,530
Total	<u>\$ 1,505,510</u>	<u>\$ 176,826</u>	<u>\$ 1,682,336</u>	<u>\$ 27,049,063</u>	<u>\$ 9,354,396</u>	<u>\$ 36,403,459</u>

Note 10 - Landfill Closure and Postclosure Care Cost

State and federal laws and regulations require the City to place a final cover on its sanitary landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$3,022,000 reported as landfill closure and postclosure care liability at June 30, 2006 represents the cumulative amount reported to date based on the use of 100 percent of the capacity of Area A (32 acres closed in 1993) and cells 1 through 14 (53 acres closed in 2004), and 31 percent of the estimated capacity of cell 15. The City will recognize the remaining estimated cost of closure and postclosure care of approximately \$661,704 as the remaining capacity of cell 15 is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in current dollars. The City expects to close cell 15 during the fiscal year ending June 2012. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Note 10 - Landfill Closure and Postclosure Care Cost (Continued)

The City is required by state and federal laws and regulations to make contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements, and at June 30, 2006, cash and cash equivalents in the amount of \$1,262,995 were held for these purposes, reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

The City has also entered into an agreement to provide a letter of credit in favor of the State of Michigan to fulfill certain bonding requirements imposed upon the City, by Michigan law.

Note 11 - Pension Funds

Police and Fire Pension System

Plan Description - The Police and Fire Pension System is a single-employer defined benefit pension plan that is administered by the City of Midland Police and Fire Employees Retirement System. This plan covers all police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2005, the date of the most recent actuarial valuation, membership consisted of 103 retirees and beneficiaries currently receiving benefits, terminated employees entitled to benefits but not yet receiving them, and 91 current active employees. The plan does not issue a separate financial report.

Funding Policy - The obligation to contribute to and maintain the system for those employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 7 percent of gross wages for firefighters and 8 percent of gross wages for all other employees. The City's funding policy provides for biweekly employee contributions and monthly employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Pension Funds (Continued)

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost was \$1,290,917, which was equal to the City's required and actual contribution. The required employer contributions were determined as part of an actuarial valuation at December 31, 2005, using the entry age actuarial funding method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, compounded annually, (c) additional projected salary increases of up to 5.2 percent per year, attributable to seniority/merit and (d) no postretirement benefit increases other than 5 percent increases for Police Command members with 25 or more years at 5, 10, 15, and 20 years after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll contributions over 10 years.

Reserves - As of June 30, 2006, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 4,766,178
Reserve for employer contributions	12,230,219
Reserve for retired benefit payment	32,241,314

Three-year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
2004	\$ 194,061	100	None
2005	929,589	100	None
2006	1,290,917	100	None

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Pension Funds (Continued)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio (Percent)	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/03	\$ 51,008,034	\$ 49,478,634	\$ (1,529,400)	103	\$ 5,582,280	(27.4)
12/31/04	48,603,366	50,436,943	1,833,577	96	5,419,813	33.8
12/31/05	50,186,088	54,310,758	4,124,670	92	5,665,317	72.8

Municipal Employees' Retirement System of Michigan - Defined Benefit Retirement Plan

Plan Description - The City of Midland participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer, defined-benefit pension plan that covers substantially all employees of the City other than police and fire employees and employees hired on or after July 1, 2005. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the City's collective bargaining units and requires a contribution from the employees ranging from 0 percent to 5 percent of gross wages. The City's funding policy provides for quarterly employee and employer contributions at actuarially determined rates.

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$2,332,776 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003 using the entry age actuarial funding method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, compounded annually, (c) additional projected salary increases of 0 percent to 4.16 percent per year, attributable to seniority/merit and (d) the assumption that benefits will increase after retirement by 2.5 percent annually, non-compounded. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Pension Funds (Continued)

Three-year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
2004	\$ 2,347,812	100	None
2005	2,495,316	100	None
2006	2,332,776	100	None

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio (Percent)	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/03	\$ 68,149,881	\$ 86,011,816	\$ 17,861,935	79	\$ 12,342,359	144.7
12/31/04	70,567,636	91,177,957	20,610,321	77	12,373,482	166.6
12/31/05	72,701,562	95,809,652	23,108,090	76	12,935,257	178.6

Municipal Employees' Retirement System of Michigan - Defined Contribution Retirement Plan

The City of Midland participates in a Municipal Employees' Retirement System of Michigan (MERS) defined contribution plan which is administered by ICMA for all employees hired on or after July 1, 2005, with the exception of police and fire employees. In the defined contribution plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City contributes 5 percent of the employees' gross earnings in the plan. The employee is fully vested after five (5) years of service or at age 65.

The City's total payroll during the current year was \$22,171,884. The current year contribution was calculated based on covered payroll of \$294,268, resulting in an employer contribution of \$14,713.

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Pension Funds (Continued)

International City/County Management Association (ICMA) - RC 457 - Deferred Compensation Plan

The City also participates in an ICMA-RC 457 deferred compensation plan for all employees hired on or after July 1, 2005, with the exception of police and fire employees. In the deferred compensation plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City will contribute up to 7 percent of the employee's wages with 100 percent matching of the employee wage contributions, in 1 percent increments.

The City's total payroll during the current year was \$22,171,884. The current year contribution was calculated based on covered payroll of \$294,268, resulting in an employer contribution of \$5,856 and employee contributions of \$5,856.

Condensed financial statements for the individual pension plans are as follows:

Statement of Plan Net Assets

	Police and Fire Pensions	Post- employment Health Care
Investments	\$ 48,007,886	\$ -
Other assets	<u>1,229,826</u>	<u>260,318</u>
Total assets	<u>\$ 49,237,712</u>	<u>\$ 260,318</u>

Statement of Changes in Plan Net Assets

	Police and Fire Pensions	Post- employment Health Care
Contributions	\$ 1,784,401	\$ 1,116,241
Investment income (net of expenses)	3,998,389	389,415
Deduction for benefit payments	(3,261,210)	-
Transfer of RHC assets to MERS	<u>-</u>	<u>(11,610,236)</u>
Change in net assets	<u>\$ 2,521,580</u>	<u>\$ (10,104,580)</u>

Note 12 - Postemployment Benefits

The City of Midland provides postemployment health care coverage under a traditional insured plan to retired employees and their qualified spouses and other dependents, as mandated by collective bargaining agreements. Each agreement contains variations of the following general guidelines. Most employees fall into one of the following general groups:

The first group of employees will be enrolled in the comprehensive master medical plan available at the time of retirement. The City will pay 100 percent of the premium for retiree, spouse, and family.

The second group of employee will be eligible for continued medical coverage when they retire from the City, providing they pay 50 percent of the premium. The City will pay the other 50 percent.

The third group, employees hired on or after July 1, 2005, excluding police and fire employees, will not be eligible to be included in the City's group health insurance plan. For those employees, the City will contribute 2 percent of the employee's wages into a health care savings program.

The City funds the retiree health insurance on a "pay as you go" basis. The net cost to the City of providing postemployment health care coverage follows:

<u>Year</u>	<u>Number of Retirees</u>	<u>Amount</u>
2006	300	\$ 4,636,377
2005	301	3,993,508
2004	284	3,544,232

During the fiscal year, the City of Midland transferred \$11,610,236 previously held in a trust fund to Municipal Employees' Retirement System of Michigan (MERS) to establish a Retiree Health Funding Vehicle. MERS will act as a fiduciary investing and managing funds for the future payment of postemployment health care coverage for the City of Midland.

Note 12 - Postemployment Benefits (Continued)

Municipal Employees' Retirement System of Michigan - Health Care Savings Program

The City of Midland participates in the Municipal Employees' Retirement System of Michigan (MERS) health care savings program for all employees hired on or after July 1, 2005, with the exception of police and fire employees. In the health care savings program, benefits depend solely on the amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City contributes 2 percent of the employee's gross earnings in the program. The employee is fully vested after three (3) years of service.

The City's total payroll during the current year was \$22,171,884. The current year contribution was calculated based on covered payroll of \$294,268, resulting in an employer contribution of \$5,885.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 13 - Claims, Litigation, and Other Contingencies

In the normal course of its activities, the City becomes a party in various legal actions. Although some actions have been brought for large amounts, the City has not generally experienced significant losses or cost. City management is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City.

The City has received several federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. City management believes such disallowances, if any, will be immaterial.

Note 14 - Enterprise Fund Contractual Revenue

The City supplies large quantities of water to Dow Chemical Company and Dow Corning Corporation under contractual arrangements with each company. Under the Dow Chemical Supplemental Agreement dated March 1, 1979, and Dow Corning Agreement dated July 15, 1985, the companies agree to pay for the variable cost of industrial grade water. In addition, the companies agree to pay a percentage of certain fixed costs, including the principal and interest costs on debt incurred by the City related to plant expansions necessary to meeting the companies' special requirements. These fixed cost payments are due in monthly installments until the bonds are paid in full.

The payment percentage is based upon the cost of the facilities required to meet the companies' exact capacity requirements relative to the total cost of the City's initial capacity requirements.

The percentage of the bond principal and interest payments reimbursed by each company follows:

	Dow Chemical Company	Dow Corning Corporation
1998 Saginaw-Midland - Water Revenue Refinancing Bonds	34.00	4.20
2000 Water Revenue Refinancing Bonds	37.976	4.667
2002 Saginaw-Midland - Water Revenue Refinancing Bond	34.00	4.20
2006 Saginaw-Midland - Water Revenue Bonds	34.00	4.20

Total payments received under these agreements during the fiscal year were \$1,041,853, consisting of principal and interest of \$752,968 and \$288,885, respectively. These payments have been recorded as nonoperating revenue in the City's Enterprise Funds. Under the terms of these agreements, no equity accrues to either company.

Under the terms of the agreement with Dow Chemical Company, the Water Fund shall retain in a Dow Chemical Emergency Repair and Maintenance Fund, \$25,000 to fund Dow's share of non-budgeted repair, replacement, or improvements.

Note 15 - Urban Cooperation Act Agreement

Effective December 30, 1992, the City entered into a 30-year interlocal public agency agreement with the Township of Midland, as authorized by the provisions of Public Act 7 of the Public Acts of the State of Michigan of 1967 (Ex Sess) [MSA 5.4088(1) et seq; MCLA 124.501 et seq].

The agreement provides for (1) the orderly and uncontested annexation to the City of certain property then located in the Township; (2) future sharing, through the year 2022, of revenues derived from the City's levy of property taxes on certain property to be annexed under the agreement; (3) beginning in September 1993, and continuing through the year 2012, the sharing of revenues derived from the City's levy of property taxes on certain commercial and industrial property already located within the City; and (4) extension, at City cost, of water and sewer services by the City to the Township boundary.

The City's obligation under provision 3 above, shall cease if and when total cumulative payments thereunder reach \$15,000,000. The amount of revenue sharing due to the Township by the City under this agreement during the year ended June 30, 2006 was \$356,825. The total cumulative payments from the City through June 30, 2006 were \$2,027,986.

Due to the tax appeals by the City's three largest taxpayers (see Note 17), the City and the Township have agreed to have the City hold back the portion of the Township's payments in relation to the additional millage levied for the tax appeal reserve. The amount recorded as a liability to the Township in the General Fund is \$2,257,371 as of June 30, 2006.

Note 16 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims, liability and property claims, airport liability and pension fiduciary liability claims, and participates in the Michigan Municipal Workers' Compensation Pool for employee injury claims.

The Michigan Municipal League risk pool programs operate as common risk-sharing/management programs for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 17 - Property Tax Appeals Contingency

In 1997, the City was presented with tax appeals from its three largest taxpayers: Midland Cogeneration Venture (MCV), the Dow Chemical Company (Dow), and the Dow Corning Corporation (Corning). The next year the City began levying a special millage to accumulate a reserve to provide partial funding for the potential liability in the event of unfavorable resolutions to these appeals. In each year from 1998 through 2004, the City assessed its risk on each of the three appeals and increased its reserve accordingly through the special millage. In addition, the City established a reserve for Special Revenue Funds for potential refunds of county road millage passed through to the City from Midland County.

By the year ended June 30, 2004, both MCV and Corning had, at least in part, been to trial before the Michigan Tax Tribunal (MTT), and as part of the trial proceedings and preparations, the exchange of information between the concerned parties enabled the City's legal counsel to recommend a reduction in its funding levels on both cases. As a result of this action, in July 2004, the City refunded approximately \$1.7 million from the reserve back to the taxpayers in the form of a millage reduction of negative .68 mills.

In October 2004, the City and Corning reached a settlement which provided for a refund to Corning of approximately \$2 million, and an 11 percent reduction of the petitioned taxable values for the tax years under dispute. The City had reserved approximately \$7.2 million in the General Fund, and \$557,000 in Special Revenue Funds for this appeal. In July 2005, the City refunded approximately \$5.3 million from the General Fund reserve to the taxpayers as part of a millage reduction of negative 2.63 mills. The balance in Special Revenue Fund reserves were allocated to future projects.

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 17 - Property Tax Appeals Contingency (Continued)

A summary of the City's General Fund tax appeal reserve and millage are illustrated below.

Year	Tax Year	Contribution to Tax Appeal Reserve	Special Millage
1996-97	1996	\$ -	0.00
1997-98	1997	5,029,000	2.30
1998-99	1998	5,834,300	2.49
1999-00	1999	8,063,200	3.24
2000-01	2000	9,226,000	3.64
2001-02	2001	5,457,400	1.94
2002-03	2002	1,255,000	1.44
2003-04	2003	5,235,900	2.13
2004-05	2004	(1,682,300)	(0.68)
2005-06	2005	(6,520,666)	(2.63)
Subtotal		31,897,834	
Refunded to Dow Corning		(1,914,996)	
Reserve balance		<u>\$ 29,982,838</u>	

A summary of all fund balances reserved for tax appeal contingency, as of June 30, 2006, follows:

General Fund	\$ 29,982,838
Major Street Fund	1,488,111
Local Street Fund	<u>409,504</u>
Total	<u>\$ 31,880,453</u>

Note 17 - Property Tax Appeals Contingency (Continued)

In November 2006, the City and Dow Chemical Company reached a settlement on a property tax appeal involving both real and personal property that will provide a refund to Dow Chemical Company of approximately \$9.8 million and a 19 percent reduction of the petitioned taxable values for the tax years under dispute, 1997 through 2006, including July 2006 taxes. With respect to activity up through fiscal year June 30, 2006 (tax year 2005), the City had reserved approximately \$8.2 million in the General Fund and \$650,000 in Special Revenue Funds for this appeal. The actual payout from the General Fund and Special Revenue Funds is approximately \$8 million and \$650,000, respectively. Any remaining reserves in the General Fund will be available for future tax refunds. The balance of the settlement refund, approximately \$1.7 million, was adequately funded by July 2006 additions to the General Fund and special revenue tax appeal reserves for Dow.

Tax appeal proceedings for MCV remain ongoing. However, it is anticipated that prior to July 1, 2007, the City will be issuing a refund of approximately \$11.1 million to MCV for the tax years 1997 through 2000, based upon a decision made by the MTT. The City has been reserving funds for potential settlement of this appeal based upon this MTT decision. The second appeal for years 2001-2005 has not yet gone to trial. As such, no tax refunds relating to those years are anticipated to be made during the next fiscal year.

As a result of these events in the Dow and MCV tax appeals, the reserves are reported on the government-wide financial statements, as of June 30, 2006, as follows:

	Noncurrent Liabilities		
	Due Within One Year	Due Beyond One Year	Total
MCV	\$11,124,089	\$11,924,516	\$23,048,605
Dow *	8,612,565	-	8,612,565
Total	<u>\$ 19,736,654</u>	<u>\$ 11,924,516</u>	<u>\$ 31,661,170</u>

* \$219,283 in excess reserves become available for future tax refunds.



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Required Supplemental Information

City of Midland, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 22,671,827	\$ 22,735,660	\$ 22,739,620	\$ 3,960
Other tax-related revenue	1,156,000	1,151,732	1,153,613	1,881
Licenses and permits	458,970	410,337	638,515	228,178
Intergovernmental	3,493,688	3,727,409	3,816,536	89,127
Charges for services	1,576,693	1,573,899	1,629,310	55,411
Use and admission charges	139,500	165,011	179,854	14,843
Investment earnings	1,050,000	1,561,135	2,207,954	646,819
Other revenues	671,710	749,842	791,916	42,074
Total revenues	31,218,388	32,075,025	33,157,318	1,082,293
Expenditures				
General government	4,809,557	4,802,563	4,360,621	441,942
Public safety	11,414,119	11,731,040	11,563,868	167,172
Public works	2,196,072	1,985,772	1,894,506	91,266
Sanitation	2,111,371	2,235,770	2,346,672	(110,902)
Parks and recreation	3,263,232	3,320,288	3,322,203	(1,915)
Airports	188,507	186,824	176,711	10,113
Tax appeal defense	2,124,440	2,892,119	1,977,046	915,073
Other functions	4,877,440	4,705,944	4,470,025	235,919
Capital improvements	1,025,298	908,543	358,875	549,668
Total expenditures	32,010,036	32,768,863	30,470,527	2,298,336
Excess of Revenues Over (Under) Revenues	(791,648)	(693,838)	2,686,791	3,380,629
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	2,560	2,560
Operating transfers in	25,000	222,857	214,364	(8,493)
Operating transfers out	(4,792,683)	(5,618,670)	(5,578,477)	40,193
Net Change in Fund Balance	(5,559,331)	(6,089,651)	(2,674,762)	3,412,329
Fund Balance - Beginning of year	40,388,260	40,388,260	40,388,260	-
Fund Balance - End of year	\$ 34,828,929	\$ 34,298,609	\$ 37,713,498	\$ 3,412,329

City of Midland, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Intergovernmental - State-shared revenue	\$ 2,944,000	\$ 2,894,000	\$ 2,998,252	104,252
Charges for services	96,135	536,057	165,004	(371,053)
Investment earnings	46,000	80,000	153,398	73,398
Other revenues	12,000	239,825	237,790	(2,035)
Total revenues	3,098,135	3,749,882	3,554,444	(195,438)
Expenditures				
Engineering	127,450	127,449	130,824	(3,375)
Roadway maintenance	206,882	184,274	178,356	5,918
Guardrail maintenance	4,729	5,750	8,157	(2,407)
Sweeping and flushing	110,617	128,601	123,690	4,911
Shoulder maintenance	10,352	13,019	16,786	(3,767)
Roadside drainage	94,128	78,029	91,028	(12,999)
Curb and gutter maintenance	29,506	27,209	35,873	(8,664)
Roadside cleanup	18,354	18,836	22,443	(3,607)
Bridge maintenance	-	53	56	(3)
Snow and ice control	375,763	475,026	423,435	51,591
Traffic services	402,739	404,586	386,690	17,896
Trunkline maintenance	96,135	161,057	178,011	(16,954)
Stormwater activities credit	(97,020)	(84,721)	(137,035)	52,314
Reserve for contingencies	20,000	-	-	-
Total expenditures	1,399,635	1,539,168	1,458,314	80,854
Excess of Revenues Over Expenditures	1,698,500	2,210,714	2,096,130	(114,584)
Other Financing Sources (Uses)				
Operating transfers in	-	-	90,000	90,000
Operating transfers out	(2,179,770)	(2,779,574)	(2,685,830)	93,744
Net Change in Fund Balance	(481,270)	(568,860)	(499,700)	69,160
Fund Balance - Beginning of year	1,618,296	1,618,296	1,618,296	-
Fund Balance - End of year	<u>\$ 1,137,026</u>	<u>\$ 1,049,436</u>	1,118,596	<u>\$ 69,160</u>

Reconciliation to include Major Street Construction Fund activity for government-wide and fund statements:

Fund Balance - Beginning of year	6,865,865
Revenue	2,540,909
Expenditures	(3,495,761)
Net operating transfers	1,062,392
Fund Balance - End of year	<u>\$ 8,092,001</u>

City of Midland, Michigan

Note to Required Supplemental Information Year Ended June 30, 2006

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Funds. All annual appropriations lapse at the end of the fiscal year.

On or before the second Monday in April, the city manager presents the proposed budget to the City Council for review. The City holds public hearings and a final budget must be prepared and adopted no later than the fourth Monday in May. During the current year, the budget was amended in a legally permissible manner.

The City Council approves the annual budget, which is prepared at the functional level.

Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders, contracts, and other commitments for the expenditure of monies) outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The City did not approve budgets for the General Construction Fund and the Cemetery Fund. Accordingly, no budget comparison schedules are provided for.

The City did not approve budgets for the Major Street Construction Fund and the Local Street Construction Fund. For the government-wide and fund financial statements, these two funds have been combined with the Major Street Fund and Local Street Fund, respectively. For the budgetary comparison schedules, the activity relating to these construction funds is shown in the reconciliation at the bottom of the budgetary comparison schedule for the Major Street Fund and Local Street Fund.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City of Midland incurred expenditures that were in excess of amounts budgeted. These unfavorable variances were caused by unanticipated expenditures that became necessary during the year. The significant budget overruns follow:

- **General Fund** - Sanitation budget overrun of \$110,902 due to severe ice storms in February and March, which caused lengthy power outages and severe damage to trees and structures within the City. The storms caused an increased amount of heavy refuse as well as a prolonged period of time for removal, generating unanticipated labor and equipment costs.
- **Transportation Fund** - Operations budget overrun of \$66,076 due to greater than anticipated vehicle maintenance costs and gas and oil costs.

City of Midland, Michigan

Note to Required Supplemental Information Year Ended June 30, 2006

Note - Stewardship, Compliance, and Accountability (Continued)

- **Community Development Block Grant** - Residential home rehabs overrun of \$61,165, neighborhood improvements overrun of \$50,000, and operating transfers out overrun of \$54,000 are all related to transactions that were approved in the 2004-2005 fiscal year's budget, but were not spent prior to year end so the transaction fell in the 2005-2006 fiscal year.
- **Community Development Block Grant** - Administration budget overrun of \$18,003 due to higher than expected labor costs charged to the program during the year.
- **Special Activities Fund** - Supplies budget overrun of \$10,073 due to higher than anticipated program costs relating to the downtown art fair, fully funded by outside contributions.

City of Midland, Michigan

Required Supplemental Information Retirement Systems Schedule of Funding Progress Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/99	\$ 53,238,098	\$ 40,481,803	\$ (12,756,295)	131.5	\$ 4,368,081	-
12/31/00	58,118,623	41,657,539	(16,461,084)	139.5	4,469,249	-
12/31/01	58,752,348	44,458,293	(14,294,055)	132.2	4,939,281	-
12/31/02	55,073,738	47,343,528	(7,730,210)	116.3	5,534,596	-
12/31/03	51,008,034	49,478,634	(1,529,400)	103.1	5,582,280	-
12/31/04	48,603,366	50,436,943	1,833,577	96.4	5,419,813	33.8
12/31/05	50,186,088	54,310,758	4,124,670	92.4	5,665,317	72.8

City of Midland, Michigan

Retirement Systems Schedule of Employer Contributions Police and Fire Retirement System

Year Ended June 30	Annual Required Contribution	Actual Contribution	Percentage Contributed
2000	\$ 488,048	\$ 488,048	100.00
2001	63,710	63,710	100.00
2002	-	-	100.00
2003	-	-	100.00
2004	194,061	194,061	100.00
2005	929,589	929,589	100.00
2006	1,290,917	1,290,917	100.00

The information presented above was determined as part of the actuarial valuations at the date indicated. Additional information as of December 31, 2005, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Amortization period (perpetual)	10 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases*	4.5%
*Includes inflation at	4.5%
Additional salary increases attributable to seniority/merit	0% to 5.2%

Other Supplemental Information

City of Midland, Michigan

Other Supplemental Information Nonmajor Governmental Funds Year Ended June 30, 2006

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Local Street Fund - This fund accounts for the maintenance and construction of streets designated by the Michigan Department of Transportation as local streets.

Storm Water Management Fund - This fund accounts for storm sewer maintenance, open drain cleaning, and county drain assessments related to storm water management within the City.

Transportation Fund - This fund accounts for the City's Dial-A-Ride transportation system.

Grace A. Dow Memorial Library Fund - This fund accounts for library services revenue and a General Fund subsidy to be used for providing library services to the citizens of Midland.

Downtown Development Authority Fund - This fund accounts for property taxes levied by an authority established for the purpose of maintaining and renovating the downtown Midland area.

Community Development Block Grant Fund - This fund accounts for grant revenues from the Department of Housing and Urban Development to be used for residential and other capital improvements.

Cable Communications Fund - This fund accounts for franchise fees generated by an agreement with a local cable company to support two public access channels operated by the City.

Special Activities Fund - This fund accounts for various types of activities that are specifically funded by outside parties, not appropriate to be accounted for in any other Special Revenue Fund, and for which the City is the benefactor of those activities.

Midland Housing Fund - This fund is used to account for a housing rehabilitation trust, which was established by a local foundation.

City of Midland, Michigan

Other Supplemental Information Nonmajor Governmental Funds (Continued) Year Ended June 30, 2006

Debt Service Fund

The Debt Service Fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Capital Projects Fund

The General Construction Fund accounts for construction activities related to governmental non-street projects.

Permanent Fund

The Cemetery Fund is used to account for the Midland Cemetery perpetual care principal and interest earnings.

City of Midland, Michigan

	Special Revenue Funds				
	Local Street	Stormwater Management	Transportation	Grace A. Dow Memorial Library	Downtown Development Authority
Assets					
Cash and cash equivalents	\$ 1,374,422	\$ 300,504	\$ 28,146	\$ 46,401	\$ 1,049,461
Receivables - Net of allowances for uncollectibles:					
Property taxes	-	-	-	-	1,031
Trust deeds	-	-	-	-	-
Accounts and contracts	-	-	2,417	27,530	-
Accrued interest	4,786	907	80	853	3,171
Due from other funds	-	-	-	-	-
Due from other governments	128,413	-	166,810	-	-
Inventories	-	-	-	-	-
Prepays	-	-	-	-	-
Total assets	\$ 1,507,621	\$ 301,411	\$ 197,453	\$ 74,784	\$ 1,053,663
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ 42,206	\$ 756	\$ 3,606	\$ 27,043	\$ 25,495
Accrued salaries and wages	-	-	19,034	46,915	3,269
Due to other funds	-	-	-	-	-
Deposits	-	-	-	826	-
Deferred revenue	-	-	66,747	-	-
Total liabilities	42,206	756	89,387	74,784	28,764
Fund Balance					
Reserved for:					
Encumbrances	-	-	100,000	-	160,000
Trust deeds/installment contracts	-	-	-	-	-
Tax appeal contingency	409,504	-	-	-	-
Special trust activities	-	-	-	-	-
Cemetery operations	-	-	-	-	-
Debt service	-	-	-	-	-
Housing activities	-	-	-	-	-
Unreserved:					
Designated for future year's expenditures	128,419	220,301	-	-	402,508
Undesignated	927,492	80,354	8,066	-	462,391
Total fund balance	1,465,415	300,655	108,066	-	1,024,899
Total liabilities and fund balance	\$ 1,507,621	\$ 301,411	\$ 197,453	\$ 74,784	\$ 1,053,663

**Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2006**

Special Revenue Funds				Debt Service Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
Community Development Block Grant	Cable Communications	Special Activities	Midland Housing	Debt Service	General Construction	Cemetery	
\$ -	\$ 25,822	\$ 163,956	\$ 415,611	\$ 10,973	\$ 669,546	\$ 1,532,242	\$ 5,617,084
-	-	-	-	7,785	-	-	8,816
1,531,966	-	-	5,546	-	-	-	1,537,512
-	120,423	19,757	339,944	-	16,737	1,400	528,208
-	130	257	1,237	78	-	4,462	15,961
145,898	-	-	-	-	-	-	145,898
35,481	-	-	-	-	-	-	330,704
-	-	-	458,154	-	-	-	458,154
1,203	-	-	-	-	-	-	1,203
\$ 1,714,548	\$ 146,375	\$ 183,970	\$ 1,220,492	\$ 18,836	\$ 686,283	\$ 1,538,104	\$ 8,643,540
\$ 52,626	\$ 763	\$ 1,478	\$ 65,350	\$ -	\$ 65,608	\$ -	\$ 284,931
-	6,933	-	-	-	-	-	76,151
-	-	-	295,898	-	-	-	295,898
-	-	25,442	-	-	-	-	26,268
-	-	-	-	-	-	-	66,747
52,626	7,696	26,920	361,248	-	65,608	-	749,995
-	640	-	-	-	-	-	260,640
1,531,966	-	-	-	-	-	-	1,531,966
-	-	-	-	-	-	-	409,504
-	-	157,050	-	-	-	-	157,050
-	-	-	-	-	-	1,538,104	1,538,104
-	-	-	-	18,836	-	-	18,836
-	-	-	859,244	-	-	-	859,244
-	-	-	-	-	-	-	751,228
129,956	138,039	-	-	-	620,675	-	2,366,973
1,661,922	138,679	157,050	859,244	18,836	620,675	1,538,104	7,893,545
\$ 1,714,548	\$ 146,375	\$ 183,970	\$ 1,220,492	\$ 18,836	\$ 686,283	\$ 1,538,104	\$ 8,643,540

City of Midland, Michigan

	Special Revenue Funds				
	Local Street	Stormwater Management	Transportation	Grace A. Dow Memorial Library	Downtown Development Authority
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 355,168
Licenses and permits	-	14,585	-	-	-
Intergovernmental - Federal	-	-	345,151	-	-
Intergovernmental - Other	777,698	-	645,349	54,853	-
Charges for services	-	-	137,465	763,681	-
Investment earnings	51,669	13,843	1,007	14,522	39,699
Contributions and other revenues	2,577	60	-	49,612	41,476
Total revenues	831,944	28,488	1,128,972	882,668	436,343
Expenditures					
Current:					
General government	-	-	-	-	-
Public works	1,076,991	541,845	-	-	-
Community development	-	-	-	-	271,881
Library	-	-	-	3,630,846	-
Transportation	-	-	1,598,969	-	-
Capital improvement	554,917	-	111,467	37,709	36,700
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	1,631,908	541,845	1,710,436	3,668,555	308,581
Excess of Revenues Over (Under) Expenditures	(799,964)	(513,357)	(581,464)	(2,785,887)	127,762
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	-	-	-	-
Operating transfers in	1,356,250	598,832	613,312	2,778,892	98,903
Operating transfers out	(260,120)	(176,255)	-	-	(123,438)
Total other financing sources (uses)	1,096,130	422,577	613,312	2,778,892	(24,535)
Net Change in Fund Balances	296,166	(90,780)	31,848	(6,995)	103,227
Fund Balances - Beginning of year	1,169,249	391,435	76,218	6,995	921,672
Fund Balances - End of year	<u>\$ 1,465,415</u>	<u>\$ 300,655</u>	<u>\$ 108,066</u>	<u>\$ -</u>	<u>\$ 1,024,899</u>

Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2006

Special Revenue Funds				Debt Service Fund	Capital Projects Fund	Permanent Fund	
Community Development Block Grant	Cable Communications	Special Activities	Midland Housing	Debt Service	General Construction	Cemetery	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,541,946	\$ -	\$ -	\$ 1,897,114
-	-	-	-	-	-	-	14,585
409,955	-	-	-	-	-	-	755,106
-	-	11,364	-	-	-	-	1,489,264
-	462,386	-	-	-	23,127	-	1,386,659
150	2,182	24,692	19,302	6,437	29,180	61,546	264,229
5,186	1,620	50,854	7,800	-	484,843	38,737	682,765
415,291	466,188	86,910	27,102	1,548,383	537,150	100,283	6,489,722
-	491,464	32,850	-	-	-	-	524,314
-	-	-	-	-	-	-	1,618,836
424,428	-	-	124,494	-	-	-	820,803
-	-	-	-	-	-	-	3,630,846
-	-	-	-	-	-	-	1,598,969
-	12,124	-	-	-	1,341,660	-	2,094,577
-	-	-	-	75,000	-	-	75,000
-	-	-	-	13,438	-	-	13,438
424,428	503,588	32,850	124,494	88,438	1,341,660	-	10,376,783
(9,137)	(37,400)	54,060	(97,392)	1,459,945	(804,510)	100,283	(3,887,061)
-	-	-	182,161	-	-	-	182,161
-	-	-	-	282,824	3,432,201	-	9,161,214
(64,000)	-	(1,750)	-	(1,731,917)	(2,919,283)	-	(5,276,763)
(64,000)	-	(1,750)	182,161	(1,449,093)	512,918	-	4,066,612
(73,137)	(37,400)	52,310	84,769	10,852	(291,592)	100,283	179,551
1,735,059	176,079	104,740	774,475	7,984	912,267	1,437,821	7,713,994
<u>\$ 1,661,922</u>	<u>\$ 138,679</u>	<u>\$ 157,050</u>	<u>\$ 859,244</u>	<u>\$ 18,836</u>	<u>\$ 620,675</u>	<u>\$ 1,538,104</u>	<u>\$ 7,893,545</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Local Street Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Intergovernmental	\$ 800,000	\$ 775,000	\$ 777,698	2,698
Investment earnings	16,600	25,000	51,669	26,669
Total revenues	816,600	800,000	829,367	29,367
Expenditures				
Engineering	58,750	58,770	88,849	(30,079)
Roadway maintenance	278,027	261,516	264,351	(2,835)
Guardrail maintenance	4,134	4,024	1,605	2,419
Sweeping and flushing	156,524	170,202	184,020	(13,818)
Shoulder maintenance	7,918	6,715	5,300	1,415
Roadside drainage	169,558	163,704	120,871	42,833
Curb and gutter maintenance	159,417	169,197	155,261	13,936
Roadside cleanup	9,827	11,198	12,276	(1,078)
Dust control	33,657	33,782	21,411	12,371
Bridge maintenance	-	-	137	(137)
Snow and ice control	235,173	315,656	288,893	26,763
Traffic services	75,180	81,183	54,888	26,295
Stormwater activities credit	(169,558)	(163,704)	(120,871)	(42,833)
Reserve for contingencies	20,000	-	-	-
Total expenditures	1,038,607	1,112,243	1,076,991	35,252
Excess of Expenditures Over Revenues	(222,007)	(312,243)	(247,624)	64,619
Other Financing Sources (Uses)				
Operating transfers in	1,356,250	1,356,250	1,356,250	-
Operating transfers out	(1,337,808)	(1,429,001)	(1,378,189)	50,812
Net Change in Fund Balance	(203,565)	(384,994)	(269,563)	115,431
Fund Balance - Beginning of year	933,391	933,391	933,391	-
Fund Balance - End of year	<u>\$ 729,826</u>	<u>\$ 548,397</u>	663,828	<u>\$ 115,431</u>

Reconciliation to include Local Street Construction Fund activity
for government-wide and fund financial statements:

Fund balance - Beginning of year	235,858
Revenues	2,577
Expenditures	(554,917)
Net operating transfers	1,118,069
Fund balance - End of year	<u>\$ 1,465,415</u>

City of Midland, Michigan

Other Supplemental Information

Budgetary Comparison Schedule - Stormwater Management Fund

Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Charges for services	\$ 26,000	\$ 24,593	\$ 14,585	\$ (10,008)
Investment earnings	18,000	17,992	13,843	(4,149)
Other revenues	-	-	60	60
Total revenues	44,000	42,585	28,488	(14,097)
Expenditures				
Administration	17,841	17,841	17,841	-
Open drain maintenance	8,150	12,828	8,150	4,678
Storm sewer maintenance	159,072	197,825	159,072	38,753
Inspection expenses	37,001	32,015	37,001	(4,986)
Storm sewer repair	104,614	58,947	59,454	(507)
Purchased services	266,578	248,425	257,905	(9,480)
Sump lead installation	13,500	8,063	2,422	5,641
Total expenditures	606,756	575,944	541,845	34,099
Excess of Expenditures Over Revenues	(562,756)	(533,359)	(513,357)	20,002
Other Financing Sources (Uses)				
Operating transfers in	556,578	538,525	598,832	60,307
Operating transfers out	(100,000)	(175,000)	(176,255)	(6,364)
Net Change in Fund Balance	(106,178)	(169,834)	(90,780)	79,054
Fund Balance - Beginning of year	391,435	391,435	391,435	-
Fund Balance - End of year	<u>\$ 285,257</u>	<u>\$ 221,601</u>	<u>\$ 300,655</u>	<u>\$ 79,054</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Transportation Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Use and admission charges	\$ 120,000	\$ 123,945	\$ 137,465	\$ 13,520
Intergovernmental - Federal	157,229	302,905	345,151	42,246
Intergovernmental - State	558,821	668,896	645,349	(23,547)
Investment earnings	-	785	1,007	222
Total revenues	836,050	1,096,531	1,128,972	32,441
Expenditures				
Operations	1,136,542	1,209,906	1,275,982	(66,076)
Administration	111,217	116,308	113,685	2,623
Dispatching	117,510	128,860	131,501	(2,641)
Capital outlay	45,628	211,597	111,467	100,130
Other	74,465	77,802	77,801	1
Total expenditures	1,381,534	1,744,473	1,710,436	34,037
Excess of Expenditures Over Revenues	(545,484)	(647,942)	(581,464)	66,478
Other Financing Sources - Operating transfers in	659,312	571,724	613,312	41,588
Net Change in Fund Balance	113,828	(76,218)	31,848	108,066
Fund Balance - Beginning of year	76,218	76,218	76,218	-
Fund Balance - End of year	<u>\$ 190,046</u>	<u>\$ -</u>	<u>\$ 108,066</u>	<u>\$ 108,066</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Grace A. Dow Library Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
State aid	\$ 66,000	\$ 54,646	\$ 54,853	\$ 207
Library services	584,197	733,336	763,681	30,345
Investment earnings	3,000	13,066	14,522	1,456
Other revenues	36,000	55,995	49,612	(6,383)
Total revenues	689,197	857,043	882,668	25,625
Expenditures				
Personal services	2,311,111	2,263,897	2,253,120	10,777
Supplies	718,470	748,755	730,711	18,044
Other charges	715,201	669,000	647,015	21,985
Capital outlay	75,900	42,798	37,709	5,089
Total expenditures	3,820,682	3,724,450	3,668,555	55,895
Excess of Expenditures Over Revenues	(3,131,485)	(2,867,407)	(2,785,887)	81,520
Other Financing Sources - Operating transfers in	3,131,485	2,860,412	2,778,892	(81,520)
Net Change in Fund Balance	-	(6,995)	(6,995)	-
Fund Balance - Beginning of year	6,995	6,995	6,995	-
Fund Balance - End of year	<u>\$ 6,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Downtown Development Authority Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 355,151	\$ 355,666	\$ 355,168	\$ (498)
Investment earnings	8,000	29,793	39,699	9,906
Other revenue	27,300	31,886	41,476	9,590
Total revenues	390,451	417,345	436,343	18,998
Expenditures				
Personal services	120,628	119,715	115,574	4,141
Supplies	2,905	2,822	2,539	283
Other charges	148,497	158,255	153,768	4,487
Capital expenditures	80,000	241,972	36,700	205,272
Total expenditures	352,030	522,764	308,581	214,183
Excess of Revenues Over (Under) Expenditures	38,421	(105,419)	127,762	233,181
Other Financing Sources (Uses)				
Operating transfers in	-	-	98,903	98,903
Operating transfers out	(123,351)	(123,438)	(123,438)	-
Net Change in Fund Balance	(84,930)	(228,857)	103,227	332,084
Fund Balance - Beginning of year	921,672	921,672	921,672	-
Fund Balance - End of year	<u>\$ 836,742</u>	<u>\$ 692,815</u>	<u>\$ 1,024,899</u>	<u>\$ 332,084</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Community Development Block Grant Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Federal grants	\$ 286,373	\$ 286,373	\$ 409,955	\$ 123,582
Program income	75,000	90,261	-	(90,261)
Investment earnings	-	-	150	150
Other revenues	-	-	5,186	5,186
Total revenues	361,373	376,634	415,291	38,657
Expenditures				
Administration	30,000	33,000	51,003	(18,003)
Residential home rehabs	195,269	90,675	151,840	(61,165)
Economic development	50,000	-	-	-
Public services project	54,000	41,950	33,124	8,826
Affordable housing	20,000	19,850	25,487	(5,637)
Removal of architectural barriers	27,000	18,922	25,000	(6,078)
Environmental reviews	8,000	514	1,661	(1,147)
Neighborhood improvements	-	-	50,000	(50,000)
Land acquisition and infrastructure - Housing	85,000	80,000	86,313	(6,313)
Reserve for contingencies	10,000	-	-	-
Total expenditures	479,269	284,911	424,428	(139,517)
Excess of Revenues Over (Under) Expenditures	(117,896)	91,723	(9,137)	(100,860)
Other Financing Uses -				
Operating transfers out	(10,000)	(10,000)	(64,000)	(54,000)
Net Change in Fund Balance	(127,896)	81,723	(73,137)	(154,860)
Fund Balance - Beginning of year	1,735,059	1,735,059	1,735,059	-
Fund Balance - End of year	<u>\$ 1,607,163</u>	<u>\$ 1,816,782</u>	<u>\$ 1,661,922</u>	<u>\$ (154,860)</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Cable Communications Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Charges for services	\$ 462,386	\$ 446,890	\$ 462,386	\$ 15,496
Investment earnings	2,182	3,000	2,182	(818)
Other revenues	1,620	2,620	1,620	(1,000)
Total revenues	466,188	452,510	466,188	13,678
Expenditures				
Personal services	333,004	330,117	329,534	583
Supplies	19,603	27,425	22,389	5,036
Other charges	178,753	143,662	139,541	4,121
Capital outlay	41,900	14,624	12,124	2,500
Total expenditures	573,260	515,828	503,588	12,240
Net Change in Fund Balance	(107,072)	(63,318)	(37,400)	25,918
Fund Balance - Beginning of year	176,079	176,079	176,079	-
Fund Balance - End of year	<u>\$ 69,007</u>	<u>\$ 112,761</u>	<u>\$ 138,679</u>	<u>\$ 25,918</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Special Activities Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Grant revenue	\$ 6,000	\$ 6,000	\$ 11,364	\$ 5,364
Contributions and other revenues	23,200	23,200	50,854	27,654
Investment earnings	1,000	1,000	24,692	23,692
Total revenues	30,200	30,200	86,910	56,710
Expenditures				
Supplies	8,590	8,590	18,663	(10,073)
Other charges	9,599	9,599	14,187	(4,588)
Capital outlay	10,000	10,000	-	10,000
Total expenditures	28,189	28,189	32,850	(4,661)
Net Change in Fund Balance	2,011	2,011	54,060	52,049
Other Financing Uses - Operating transfers out	-	-	(1,750)	(1,750)
Fund Balance - Beginning of year	104,740	104,740	104,740	-
Fund Balance - End of year	<u>\$ 106,751</u>	<u>\$ 106,751</u>	<u>\$ 157,050</u>	<u>\$ 50,299</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Midland Housing Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Investment earnings	\$ 4,901	\$ 13,007	\$ 19,302	\$ 6,295
Proceeds from sale of assets	120,000	287,161	182,161	(105,000)
Other revenues	-	9,000	7,800	(1,200)
Total revenues	124,901	309,168	209,263	(99,905)
Expenditures				
Cost of assets sold	116,000	345,392	118,908	226,484
Warranty maintenance	5,000	5,106	5,586	(480)
Total expenditures	121,000	350,498	124,494	226,004
Net Change in Fund Balance	3,901	(41,330)	84,769	126,099
Fund Balance - Beginning of year	774,475	774,475	774,475	-
Fund Balance - End of year	<u>\$ 778,376</u>	<u>\$ 733,145</u>	<u>\$ 859,244</u>	<u>\$ 126,099</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Debt Service Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 1,511,062	\$ 1,510,066	\$ 1,503,742	\$ (6,324)
Industrial facilities tax	39,063	39,084	38,204	(880)
Investment earnings	-	7,124	6,437	(687)
Total revenues	1,550,125	1,556,274	1,548,383	(7,891)
Expenditures				
Principal retirement - 1992 DDA bonds	75,000	75,000	75,000	-
Interest - 1992 DDA bonds	12,763	12,763	12,763	-
Paying agent fees	675	675	675	-
Total expenditures	88,438	88,438	88,438	-
Excess of Revenues Over Expenditures	1,461,687	1,467,836	1,459,945	(7,891)
Other Financing Sources (Uses)				
Operating transfers in	283,324	282,824	282,824	-
Operating transfers out	(1,749,539)	(1,731,917)	(1,731,917)	-
Net Change in Fund Balance	(4,528)	18,743	10,852	(7,891)
Fund Balance - Beginning of year	7,984	7,984	7,984	-
Fund Balance - End of year	<u>\$ 3,456</u>	<u>\$ 26,727</u>	<u>\$ 18,836</u>	<u>\$ (7,891)</u>

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Year Ended June 30, 2006

Enterprise Funds

Enterprise Funds are used to account for operations financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

Golf Course Fund - This fund accounts for the operations of the Currie Municipal Golf Course.

Parking System Fund - This fund accounts for the operations of the City's metered and leased parking spaces and downtown parking structure.

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Combining Statement of Net Assets June 30, 2006

	Golf Course	Parking System	Total Nonmajor Proprietary Funds
Assets			
Current assets:			
Cash and cash equivalents	\$ -	\$ 50,063	\$ 50,063
Investments	303,263	-	303,263
Receivables - Net of allowances for uncollectibles:			
Accounts and contracts	4,655	8,126	12,781
Accrued interest	-	140	140
Prepaid items	-	21,000	21,000
Total current assets	307,918	79,329	387,247
Property, plant, and equipment:			
Land and land improvements	4,830,415	1,158,415	5,988,830
Buildings and structure	1,333,219	1,413,000	2,746,219
Vehicles	76,716	-	76,716
Equipment	238,304	8,669	246,973
Total property, plant, and equipment	6,478,654	2,580,084	9,058,738
Accumulated depreciation	(1,290,619)	(684,411)	(1,975,030)
Net property, plant, and equipment	5,188,035	1,895,673	7,083,708
Total assets	5,495,953	1,975,002	7,470,955
Liabilities - Current liabilities - Accounts payable	343,091	355	343,446
Net Assets			
Investment in capital assets	5,188,035	1,895,673	7,083,708
Unrestricted	(35,173)	78,974	43,801
Total net assets	<u>\$ 5,152,862</u>	<u>\$ 1,974,647</u>	<u>\$ 7,127,509</u>

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Combining Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Golf Course	Parking System	Total Nonmajor Proprietary Funds
Operating Revenues - Use and admission charges	\$ 812,393	\$ 82,982	\$ 895,375
Operating Expenses			
Operations	836,769	36,435	873,204
Maintenance	-	71,900	71,900
Depreciation	<u>131,309</u>	<u>38,383</u>	<u>169,692</u>
Total operating expenses	<u>968,078</u>	<u>146,718</u>	<u>1,114,796</u>
Net Operating Loss	(155,685)	(63,736)	(219,421)
Nonoperating Revenues (Expenses)			
Investment earnings	10,723	2,640	13,363
Other expenses	<u>(53,698)</u>	<u>-</u>	<u>(53,698)</u>
Total nonoperating revenues (expenses)	<u>(42,975)</u>	<u>2,640</u>	<u>(40,335)</u>
Loss - Before operating transfers	(198,660)	(61,096)	(259,756)
Operating Transfers In	<u>-</u>	<u>35,000</u>	<u>35,000</u>
Change in Net Assets	(198,660)	(26,096)	(224,756)
Net Assets - Beginning of year	<u>5,351,522</u>	<u>2,000,743</u>	<u>7,352,265</u>
Net Assets - End of year	<u><u>\$ 5,152,862</u></u>	<u><u>\$ 1,974,647</u></u>	<u><u>\$ 7,127,509</u></u>

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Combining Statement of Cash Flows Year Ended June 30, 2006

	Golf Course	Parking System	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 809,499	\$ 80,364	\$ 889,863
Payment to suppliers	(363,780)	(104,504)	(468,284)
Payment to employees	(442,468)	(25,465)	(467,933)
Net cash provided by (used in) operating activities	3,251	(49,605)	(46,354)
Cash Flows from Noncapital Financing Activities -			
Operating transfers in	-	35,000	35,000
Cash Flows from Capital and Related Financing Activities -			
Acquisition of capital assets	(1,251)	-	(1,251)
Cash Flows from Investing Activities -			
Investment earnings	(2,000)	2,703	703
Net Decrease in Cash and Cash Equivalents	-	(11,902)	(11,902)
Cash and Cash Equivalents - Beginning of year	-	61,965	61,965
Cash and Cash Equivalents - End of year	<u>\$ -</u>	<u>\$ 50,063</u>	<u>\$ 50,063</u>
Noncash Investing Activities - Changes in fair value of investments	<u>\$ (42,735)</u>	<u>\$ -</u>	<u>\$ (42,735)</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (155,685)	\$ (63,736)	\$ (219,421)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	131,309	38,383	169,692
Changes in operating assets and liabilities:			
Accounts receivable	(4,655)	(2,618)	(7,273)
Prepays	-	(21,000)	(21,000)
Accounts payable	32,282	(634)	31,648
Net cash provided (used in) operating activities	<u>\$ 3,251</u>	<u>\$ (49,605)</u>	<u>\$ (46,354)</u>

City of Midland, Michigan

Other Supplemental Information Fiduciary Funds Year Ended June 30, 2006

Trust Funds

Trust Funds are used to account for assets held by the City in a trustee capacity.

Police and Fire Pension Fund - This fund accounts for the accumulation of resources for, and the payment of, pension benefits.

Postemployment Health Care Fund - This fund accounts for revenues and expenses resulting primarily from the City's self-funding contributions toward postemployment health care benefits.

Agency Funds

Agency Funds are used to account for assets held by the City as an agent for individuals, organizations, or other governments.

Shopping Area Redevelopment Fund - The City acts as an agent for the financial management of this authority. This fund accounts for special assessments charged against property owners within the authority district for promotion of the area.

Tax Collection Fund - This fund is used to account for taxes collected on behalf of other governmental units.

City of Midland, Michigan

Other Supplemental Information Pension and Other Employee Benefit Trust Funds Statement of Plan Net Assets June 30, 2006

	Police and Fire Pension	Post- employment Health Care	Total
Assets			
Cash and cash equivalents	\$ 1,140,491	\$ 241,665	\$ 1,382,156
Investments:			
Common stock	23,139,196	-	23,139,196
Preferred stock	1,716,364	-	1,716,364
Bonds	7,839,546	-	7,839,546
U.S. government securities	419,275	-	419,275
Mortgage and asset-backed securities	4,318,718	-	4,318,718
International funds	10,574,787	-	10,574,787
Receivables - Net of allowances for uncollectibles:			
Accounts and contracts	-	225	225
Accrued interest	89,335	18,428	107,763
Total assets	<u>\$ 49,237,712</u>	<u>\$ 260,318</u>	<u>\$ 49,498,030</u>
Net Assets			
Held in trust for pension benefits	\$ 49,237,712	\$ -	\$ 49,237,712
Held in trust for postemployment health benefits	-	260,318	260,318
Total net assets	<u>\$ 49,237,712</u>	<u>\$ 260,318</u>	<u>\$ 49,498,030</u>

City of Midland, Michigan

Other Supplemental Information Pension and Other Employee Benefit Trust Funds Statement of Changes in Plan Net Assets Year Ended June 30, 2006

	Police and Fire Pension	Post- employment Health Care	Total
Additions			
Contributions:			
Employer	\$ 1,290,917	\$ 1,116,241	\$ 2,407,158
Employee	493,484	-	493,484
Total contributions	1,784,401	1,116,241	2,900,642
Investment income:			
Net appreciation in fair value of assets	3,208,504	-	3,208,504
Interest	568,114	389,415	957,529
Dividends	570,301	-	570,301
Total investment income	4,346,919	389,415	4,736,334
Less investment expenses	(348,530)	-	(348,530)
Net investment income	3,998,389	389,415	4,387,804
Total additions	5,782,790	1,505,656	7,288,446
Deduction - Benefit payments	3,261,210	-	3,261,210
Special Item - Retiree health contribution	-	11,610,236	11,610,236
Change in Net Assets	2,521,580	(10,104,580)	(7,583,000)
Net Assets Held in Trust			
Beginning of year	46,716,132	10,364,898	57,081,030
End of year	<u>\$ 49,237,712</u>	<u>\$ 260,318</u>	<u>\$ 49,498,030</u>

City of Midland, Michigan

Other Supplemental Information Agency Funds Combining Statement of Changes in Plan Net Assets Year Ended June 30, 2006

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
<u>Shopping Area Redevelopment Authority</u>				
Assets				
Cash and cash equivalents	\$ 9,833	\$ 38,612	\$ 39,346	\$ 9,099
Accrued interest	50	200	219	31
Total assets	<u>\$ 9,883</u>	<u>\$ 38,812</u>	<u>\$ 39,565</u>	<u>\$ 9,130</u>
Liabilities				
Accounts payable	\$ 2,087	\$ 25,259	\$ 25,346	\$ 2,000
Due to other governmental units	7,796	7,130	7,796	7,130
Total liabilities	<u>\$ 9,883</u>	<u>\$ 32,389</u>	<u>\$ 33,142</u>	<u>\$ 9,130</u>
<u>Tax Collection Fund</u>				
Assets				
Cash and cash equivalents	\$ 10,950	\$ 80,154,726	\$ 80,165,676	\$ -
Accounts and contracts	-	118,848	75,909	42,939
Total assets	<u>\$ 10,950</u>	<u>\$ 80,273,574</u>	<u>\$ 80,241,585</u>	<u>\$ 42,939</u>
Liabilities - Due to other governmental units	<u>\$ 10,950</u>	<u>\$ 80,273,574</u>	<u>\$ 80,241,585</u>	<u>\$ 42,939</u>
<u>Total All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 20,783	\$ 80,193,338	\$ 80,205,022	\$ 9,099
Accounts and contracts	-	118,848	75,909	42,939
Accrued interest	50	200	219	31
Total assets	<u>\$ 20,833</u>	<u>\$ 80,312,386</u>	<u>\$ 80,281,150</u>	<u>\$ 52,069</u>
Liabilities				
Accounts payable	\$ 2,087	\$ 25,259	\$ 25,346	\$ 2,000
Due to other governmental funds	18,746	80,280,704	80,249,381	50,069
Total liabilities	<u>\$ 20,833</u>	<u>\$ 80,305,963</u>	<u>\$ 80,274,727</u>	<u>\$ 52,069</u>

City of Midland, Michigan

Other Supplemental Information Internal Service Funds Year Ended June 30, 2006

Internal Service Funds

Internal Service Funds are used to account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

Data Processing Fund - This fund accounts for the operations of the City's Information Services Department.

Equipment Revolving Fund - This fund accounts for the rental charges of City-owned equipment to other City departments.

Service Center Rental Fund - This fund accounts for the operations of the City's Service Center building.

Insurance Claims Fund - This fund accounts for insurance expenses resulting from property and liability claims.

Special Assessment Revolving Fund - This fund accounts for the funding of the City's special assessment projects.

Geographic Information System Fund - This fund accounts for the operations of the City's geographic information system.

City of Midland, Michigan

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Assets			
Current assets:			
Cash and investments	\$ 1,570,365	\$ 2,030,254	\$ 685,351
Receivables:			
Accounts and contracts	300	-	-
Special assessments - Current	-	-	-
Accrued interest	4,627	6,796	1,992
Due from other funds	-	-	-
Inventories	-	285,185	-
Prepaid items	-	-	-
Total current assets	1,575,292	2,322,235	687,343
Special assessments - Long-term	-	-	-
Property, plant, and equipment:			
Construction in progress	45,000	-	-
Land and land improvements	-	-	55,000
Buildings and structures	-	29,493	3,027,114
Vehicles	-	12,759,515	-
Equipment	2,366,330	796,083	121,333
Total property, plant, and equipment	2,411,330	13,585,091	3,203,447
Accumulated depreciation	(1,946,526)	(7,677,990)	(2,308,299)
Net property, plant, and equipment	464,804	5,907,101	895,148
Total assets	2,040,096	8,229,336	1,582,491
Liabilities			
Accounts payable	2,837	41,665	2,700
Accrued salaries and wages	12,488	24,522	238
Accrued compensated absences - Current	45,420	66,397	-
Accrued compensated absences - Noncurrent	80,121	33,314	-
Due to other funds	-	-	-
Deferred special assessments	-	-	-
Total liabilities	140,866	165,898	2,938
Net Assets			
Invested in capital assets - Net of related debt	464,804	5,907,101	895,148
Unrestricted	1,434,426	2,156,337	684,405
Total net assets	<u>\$ 1,899,230</u>	<u>\$ 8,063,438</u>	<u>\$ 1,579,553</u>

Other Supplemental Information
Internal Service Funds
Combining Statement of Net Assets
June 30, 2006

Insurance Claims Fund	Special Assessment Revolving Fund	Geographical Information Systems	Totals
\$ 756,322	\$ 1,664,145	\$ 213,958	\$ 6,920,395
63,448	-	-	63,748
-	94,733	-	94,733
-	-	-	13,415
-	150,000	-	150,000
-	-	-	285,185
25,000	-	-	25,000
844,770	1,908,878	213,958	7,552,476
-	328,329	-	328,329
-	-	-	45,000
-	-	-	55,000
-	-	-	3,056,607
-	-	-	12,759,515
-	-	103,069	3,386,815
-	-	103,069	19,302,937
-	-	(12,883)	(11,945,698)
-	-	90,186	7,357,239
844,770	2,237,207	304,144	15,238,044
1,606	-	51,094	99,902
-	-	3,528	40,776
-	-	656	112,473
-	-	4,404	117,839
-	-	-	-
-	-	-	-
1,606	-	59,682	370,990
-	-	90,186	7,357,239
843,164	2,237,207	154,276	7,509,815
\$ 843,164	\$ 2,237,207	\$ 244,462	\$ 14,867,054

City of Midland, Michigan

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Operating Revenues			
Charges for services - Internal	\$ 925,867	\$ 112,412	\$ -
Miscellaneous	-	69,051	-
Rental	-	2,802,029	284,078
Total operating revenues	925,867	2,983,492	284,078
Operating Expenses			
Operations	914,826	2,475,725	238,877
Depreciation	134,171	1,143,380	58,986
Total operating expenses	1,048,997	3,619,105	297,863
Net Operating Loss	(123,130)	(635,613)	(13,785)
Nonoperating Revenues (Expenses)			
Investment earnings	67,813	105,898	28,694
Gain on disposal of assets	-	122,565	-
Miscellaneous revenue	-	(9,087)	-
Miscellaneous expenses	(16,222)	(289,478)	-
Total nonoperating revenues (expenses)	51,591	(70,102)	28,694
Income (Loss) - Before capital contributions and operating transfers	(71,539)	(705,715)	14,909
Capital Contributions	23,372	85,834	-
Operating Transfers In	-	-	-
Change in Net Assets	(48,167)	(619,881)	14,909
Net Assets - Beginning of year	1,947,397	8,683,319	1,564,644
Net Assets - End of year	<u>\$ 1,899,230</u>	<u>\$ 8,063,438</u>	<u>\$ 1,579,553</u>

Other Supplemental Information
Internal Service Funds
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2006

Insurance Claims Fund	Special Assessment Revolving Fund	Geographical Information Systems	Total
\$ 1,008,846	\$ -	\$ -	\$ 2,047,125
-	-	-	69,051
-	-	-	3,086,107
1,008,846	-	-	5,202,283
1,068,062	-	236,097	4,933,587
-	-	12,884	1,349,421
1,068,062	-	248,981	6,283,008
(59,216)	-	(248,981)	(1,080,725)
-	-	3,443	205,848
141,527	-	-	264,092
-	328,330	-	319,243
-	-	-	(305,700)
141,527	328,330	3,443	483,483
82,311	328,330	(245,538)	(597,242)
-	-	-	109,206
-	120,164	490,000	610,164
82,311	448,494	244,462	122,128
760,853	1,788,713	-	14,744,926
\$ 843,164	\$ 2,237,207	\$ 244,462	\$ 14,867,054

City of Midland, Michigan

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Cash Flows from Operating Activities			
Receipts from customers	\$ 926,101	\$ 2,983,492	\$ 284,078
Payment to suppliers	(300,581)	(1,340,548)	(197,796)
Payment to employees	(616,157)	(1,077,035)	(46,609)
Other receipts (expenditures)	-	15,859	-
Net cash provided by (used in) operating activities	9,363	581,768	39,673
Cash Flows from Noncapital Financing Activities			
Operating transfers in (out)	-	-	-
Nonoperating expenses	(16,222)	(302,012)	-
Additional investment in joint ventures	-	-	-
Net cash provided by (used in) noncapital financing activities	(16,222)	(302,012)	-
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(320,413)	(993,664)	(23,641)
Interest paid	-	-	-
Proceeds from sale of capital assets	-	133,298	-
Net cash provided by (used in) capital and related financing activities	(320,413)	(860,366)	(23,641)
Cash Flows from Investing Activities - Investment earnings	70,016	109,528	29,107
Net Increase (Decrease) in Cash and Cash Equivalents	(257,256)	(471,082)	45,139
Cash and Cash Equivalents - Beginning of year	1,827,621	2,501,336	640,212
Cash and Cash Equivalents - End of year	\$ 1,570,365	\$ 2,030,254	\$ 685,351
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (123,130)	\$ (635,613)	\$ (13,785)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	134,171	1,143,380	58,986
Miscellaneous cash received (paid)	-	15,859	-
Changes in operating assets and liabilities:			
Accounts receivable	234	-	-
Inventory	-	86,818	-
Accounts payable	797	(42,092)	(5,034)
Accrued salaries and wages	2,603	6,296	(494)
Compensated absences, death benefits, and	(5,312)	7,120	-
Net cash provided by (used in) operating activities	\$ 9,363	\$ 581,768	\$ 39,673

Other Supplemental Information
Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2006

Insurance Claims Fund	Special Assessment Revolving Fund	GIS Fund	Total
\$ 947,265	\$ 24,323	\$ -	\$ 5,165,259
(1,075,866)	-	(114,857)	(3,029,648)
-	-	(61,558)	(1,801,359)
-	-	-	15,859
(128,601)	24,323	(176,415)	350,111
-	(879,836)	490,000	(879,836)
-	-	-	(318,234)
-	-	-	-
-	(879,836)	490,000	(1,198,070)
-	-	(103,070)	(1,337,718)
-	(96,594)	-	(96,594)
141,527	-	-	274,825
141,527	(96,594)	(103,070)	(1,159,487)
-	96,595	3,443	305,246
12,926	(855,512)	213,958	(1,525,785)
743,396	2,519,657	-	8,232,222
<u>\$ 756,322</u>	<u>\$ 1,664,145</u>	<u>\$ 213,958</u>	<u>\$ 6,706,437</u>
\$ (59,216)	\$ -	\$ (248,981)	\$ (1,080,725)
-	-	12,884	1,349,421
-	-	-	15,859
(61,581)	24,323	-	(37,024)
-	-	-	86,818
(7,804)	-	51,094	(3,039)
-	-	3,528	11,933
-	-	5,060	6,868
<u>\$ (128,601)</u>	<u>\$ 24,323</u>	<u>\$ (176,415)</u>	<u>\$ 350,111</u>

Statistical Section

Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplemental information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

Sources - Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

City of Midland, Michigan

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Midland, Michigan

Net Assets by Component

	As of June 30,			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities:				
Invested in capital assets, net of related debt	\$ 31,453,600	\$ 34,482,454	\$ 42,571,216	\$ 47,046,031
Restricted	5,323,687	9,585,916	11,839,822	11,499,338
Unrestricted	<u>20,395,828</u>	<u>15,239,997</u>	<u>14,477,245</u>	<u>11,049,423</u>
Total net assets	<u>57,173,115</u>	<u>59,308,367</u>	<u>68,888,283</u>	<u>69,594,792</u>
Business Type Activities:				
Invested in capital assets, net of related debt	73,153,733	77,971,667	80,266,457	86,214,413
Restricted	1,219,000	1,219,000	1,219,000	1,219,000
Unrestricted	<u>24,836,584</u>	<u>25,926,545</u>	<u>26,174,456</u>	<u>25,467,911</u>
Total net assets	<u>99,209,317</u>	<u>105,117,212</u>	<u>107,659,913</u>	<u>112,901,324</u>
Primary Government in Total:				
Invested in capital assets, net of related debt	104,607,333	112,454,121	122,837,673	133,260,444
Restricted	6,542,687	10,804,916	13,058,822	12,718,338
Unrestricted	<u>45,232,412</u>	<u>41,166,542</u>	<u>40,651,701</u>	<u>36,517,334</u>
Total net assets	<u>\$ 156,382,432</u>	<u>\$ 164,425,579</u>	<u>\$ 176,548,196</u>	<u>\$ 182,496,116</u>

Note: The City adopted GASB No. 34 during fiscal year 2002-03 and began reporting a government-wide statement of net assets. Source: City's Comprehensive Annual Financial Report

City of Midland, Michigan

Changes in Governmental Net Assets

	Fiscal Year Ended June 30,			
	2003	2004	2005	2006
Expenses				
General government	\$ 3,279,204	\$ 3,923,677	\$ 3,062,737	\$ 4,099,371
Public safety	9,250,019	9,711,488	10,987,667	11,683,717
Public works	5,848,577	6,905,679	5,075,325	6,475,722
Community development	692,700	727,679	403,039	642,882
Sanitation	1,969,885	2,238,911	2,088,026	2,368,344
Parks and recreation	3,455,967	4,021,471	3,893,440	3,545,585
Library	3,653,604	4,395,461	4,407,303	3,818,728
Airport	162,805	225,844	196,857	192,581
Transportation	1,287,256	1,506,906	1,517,410	1,698,174
Tax appeal defense	5,631,424	4,532,256	6,451,758	1,977,046
Other functions	2,847,450	3,876,951	4,589,005	4,447,380
Interest and fiscal agent fees	37,005	28,916	191,568	13,438
Total governmental activities	38,115,896	42,095,239	42,864,135	40,962,968
Program revenues:				
Charges for services				
General government	203,250	247,868	154,811	625,939
Public safety	678,914	861,223	849,783	877,505
Public works	273,277	205,493	306,035	288,910
Community development	33,168	114,000	30,123	51,212
Sanitation	151,502	157,230	158,461	171,911
Parks and recreation	672,234	769,802	997,876	218,591
Library	583,940	735,818	616,097	765,295
Airport	13,370	15,933	75,089	108,675
Transportation	130,238	119,249	119,672	137,465
Tax appeal defense	-	-	-	-
Other functions	1,085	433,453	448,750	-
Interest and fiscal agent fees	-	-	-	-
Total charges for services	2,740,978	3,660,069	3,756,697	3,245,503
Operating grants and contributions	4,705,483	5,266,394	5,225,190	5,454,670
Capital grants and contributions	1,678,322	1,574,935	2,593,611	2,034,627
Total program revenue	9,124,783	10,501,398	11,575,498	10,734,800
Net (expense) revenue	(28,991,113)	(31,593,841)	(31,288,637)	(30,228,168)
General revenues:				
Property taxes	30,166,594	29,155,614	36,033,726	26,518,333
Other tax related revenue	1,201,478	1,209,761	1,144,431	1,153,613
Intergovernmental	4,030,610	3,655,371	3,654,624	3,667,075
Investment earnings	1,233,537	1,223,337	1,567,420	2,947,591
Miscellaneous revenues	284,329	149,312	308,300	45,993
Gain on sale of capital assets	14,118	-	-	-
Transfers	(1,972,170)	(2,117,915)	(1,830,711)	(3,397,927)
Special items - Gain of sale of equity interests	-	453,613	-	-
Total general revenues and transfers	34,958,496	33,729,093	40,877,790	30,934,678
Change in net assets	\$ 5,967,383	\$ 2,135,252	\$ 9,589,153	\$ 706,509

Note: The City adopted GASB No. 34 during fiscal year 2002-03 and began reporting a government-wide statement of net assets. Source: City's Comprehensive Annual Financial Report

City of Midland, Michigan

Changes in Business-type Net Assets

	Fiscal year ended June 30,			
	2003	2004	2005	2006
Operating Revenue				
Wastewater service charges	\$ 3,911,878	\$ 3,992,174	\$ 4,271,674	\$ 4,513,338
Water sales	6,752,491	6,850,399	7,220,106	7,391,171
Landfill use and admission charges	3,030,293	3,766,356	3,120,726	3,217,430
Civic Arena use and admission charges	-	-	-	1,041,763
Other use and admission charges	834,960	807,729	843,179	895,375
Rentals	2,394,221	2,468,774	2,558,359	2,607,737
Fines and forfeits	145,740	118,718	122,155	129,202
Total operating revenue	17,069,583	18,004,150	18,136,199	19,796,016
Operating Expenses				
Water	3,183,240	3,406,247	3,480,308	3,627,534
Wastewater	875,492	980,128	966,934	1,023,045
Real estate rental	1,926,782	1,941,481	1,997,522	2,041,420
Landfill	2,152,284	1,982,880	2,697,045	1,979,811
Civic Arena	-	-	-	1,028,812
Other operating	1,012,341	952,388	837,210	873,204
Administration	1,219,508	1,296,355	1,661,561	1,704,422
Maintenance	2,974,687	3,207,459	3,757,473	3,912,321
Depreciation	4,059,007	3,442,725	3,852,093	3,660,043
Total operating expenses	17,403,341	17,209,663	19,250,146	19,850,612
Operating Income (Loss)	(333,758)	794,487	(1,113,947)	(54,596)
Nonoperating Revenue (Expenses)				
Investment earnings (losses)	319,594	339,423	349,012	646,856
Gain from investment in joint venture	138,604	121,970	284,786	435,216
Contractual revenues	1,293,984	1,196,491	1,135,813	1,041,852
Profit (loss) on disposition of assets	743	(2,769)	(52,417)	(44,189)
Sales of meals - revenue	404,457	418,638	419,982	415,676
Sales of meals - expenses	(569,152)	(579,520)	(561,079)	(544,872)
Miscellaneous revenue	161,289	318,598	697,071	679,281
Interest expense	(1,397,160)	(1,354,083)	(1,180,224)	(1,349,648)
Miscellaneous expense	(918,888)	(518,130)	(634,980)	(944,729)
Total nonoperating revenues (expenses)	(566,529)	(59,382)	457,964	335,443
Income (Loss) - Before contribution and transfers	(900,287)	735,105	(655,983)	280,847
Capital contributions	2,358,059	1,682,025	1,137,555	2,449,257
Operating transfers in	1,972,170	2,117,915	1,830,711	4,360,745
Operating transfers out	-	-	-	(1,957,809)
Change in Net Assets	3,429,942	4,535,045	2,312,283	5,133,040
Some amounts reported for business-type activities in the statement of activities are different because of net revenue (expense) of certain internal services is reported with business-type activities.	302,820	1,372,850	230,418	108,371
Change in net assets of business-type activities	\$ 3,732,762	\$ 5,907,895	\$ 2,542,701	\$ 5,241,411

Note: a. The City adopted GASB No. 34 during fiscal year 2002-03 and began reporting a government-wide statement of net assets.

b. During fiscal year 2005-06 the Civic Arena Fund was added as a proprietary fund.

Source: City's Comprehensive Annual Financial Report

City of Midland, Michigan

	1997	1998	1999	2000
General Fund:				
Reserved	\$ 2,574,826	\$ 6,828,034	\$ 13,895,811	\$ 20,849,242
Unreserved	<u>5,177,931</u>	<u>6,421,683</u>	<u>5,660,279</u>	<u>6,805,541</u>
Total General Fund	7,752,757	13,249,717	19,556,090	27,654,783
All other governmental funds:				
Reserved	2,513,847	2,661,464	2,544,780	4,035,725
Unreserved, reported in:				
Special Revenue Funds	1,841,723	2,168,917	2,901,651	2,977,583
Capital Project Funds	-	(66,516)	-	-
Debt Service Funds	<u>6,490</u>	<u>3,872</u>	<u>3,624</u>	<u>5,807</u>
Total all other governmental funds	<u>\$ 12,114,817</u>	<u>\$ 18,017,454</u>	<u>\$ 25,006,145</u>	<u>\$ 34,673,898</u>

Notes:

- (a) The City established a tax appeal reserve within the General Fund during fiscal year 1997-98. See Notes to Financial Statements.
- (b) During fiscal year 2001-02, the Storm Water Management Fund was reclassified from an Enterprise Fund to a Special Revenue Fund.
- (c) The City adopted GASB No. 34 during fiscal year 2002-03. Beginning fund balances were restated to reflect the implementation.
- (d) During fiscal year 2002-03, the Transportation Fund was reclassified from a proprietary fund to a Special Revenue Fund. The 2002-03 beginning fund balance has been restated to reflect the change.
- (e) During fiscal year 2003-04, the Special Assessment Revolving Fund was reclassified as an Internal Service Fund to properly reflect activity. The 2003-04 beginning fund balance has been restated to reflect this change.
- (f) 2004-05 beginning fund balance has been restated to reflect prior year adjustment of \$9,228.

Source: City's Comprehensive Annual Financial Report

Fund Balances - Governmental Funds

2001	2002	2003	2004	2005	2006
\$ 30,213,730	\$ 37,272,928	\$ 38,033,797	\$ 41,711,287	\$ 39,525,290	\$ 32,321,210
<u>6,491,633</u>	<u>4,657,134</u>	<u>6,872,226</u>	<u>5,619,677</u>	<u>862,970</u>	<u>5,392,288</u>
36,705,363	41,930,062	44,906,023	47,330,964	40,388,260	37,713,498
7,970,477	10,539,100	9,836,063	6,583,221	6,133,899	6,457,181
2,872,816	2,455,937	2,610,688	9,353,608	9,151,988	9,528,365
-	-	-	470,031	912,267	-
<u>21,901</u>	<u>22,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 47,570,557</u>	<u>\$ 54,947,725</u>	<u>\$ 57,352,774</u>	<u>\$ 63,737,824</u>	<u>\$ 56,586,414</u>	<u>\$ 53,699,044</u>

City of Midland, Michigan

	1997	1998	1999	2000
Revenue				
Property taxes	\$ 19,477,594	\$ 24,630,474	\$ 25,091,737	\$ 27,286,249
Other tax related revenue	66,046	998,470	995,647	1,067,420
Licenses and permits	533,449	510,921	442,978	442,361
Intergovernmental - federal	275,688	271,860	427,159	304,747
Intergovernmental - other	5,985,938	6,849,111	7,300,090	8,071,172
Charges for services	1,426,634	1,564,416	1,868,868	2,103,864
Use and admission charges	499,520	481,528	514,985	544,312
Investment earnings	1,315,065	1,684,822	1,917,870	2,592,270
Contributions and other revenues	4,005,001	3,197,444	4,207,836	3,565,358
Total revenue	33,584,935	40,189,046	42,767,170	45,977,753
Expenditures				
Current:				
General government	3,358,226	3,990,861	5,614,263	6,780,564
Public safety	8,618,067	8,116,770	8,425,944	8,043,681
Public works	3,234,764	3,619,069	3,546,082	3,732,670
Community development	389,376	57,569	71,474	85,066
Sanitation	2,165,502	2,045,979	2,050,794	1,990,302
Parks and recreation	2,893,703	3,129,166	3,065,359	3,124,882
Library	2,444,086	2,707,571	2,785,100	2,991,871
Airport	160,434	103,921	103,296	266,376
Transportation	-	-	-	-
Tax appeal defense	-	-	-	-
Other functions	3,102,684	3,447,020	3,127,035	2,680,214
Capital improvement	3,129,088	5,415,569	5,409,678	4,853,529
Debt service				
Principal retirement	940,000	1,017,000	1,018,000	1,012,000
Interest and fiscal charges	483,832	438,820	397,032	351,614
Total expenditures	30,919,762	34,089,315	35,614,057	35,912,769
Excess of Revenue Over (Under) Expenditures	2,665,173	6,099,731	7,153,113	10,064,984
Proceeds from sale of capital assets	-	-	-	-
Bond issuance	-	-	-	-
Operating transfers in	2,573,384	6,469,204	5,021,447	6,565,221
Operating transfers out	(2,856,107)	(6,666,298)	(5,185,869)	(6,962,452)
Total other financing sources (uses)	(282,723)	(197,094)	(164,422)	(397,231)
Net Change in Fund Balances	2,382,450	5,902,637	6,988,691	9,667,753
Fund Balances - Beginning of year	9,732,367	12,114,817	18,017,454	25,006,145
Fund Balances - End of year	\$ 12,114,817	\$ 18,017,454	\$ 25,006,145	\$ 34,673,898
Debt service as a percentage of noncapital expenditures	5.35%	5.32%	4.92%	4.50%

Notes:

- The City established a tax appeal reserve within the General Fund during fiscal year 1997-98. See Notes to Financial Statements.
- During fiscal year 2001-02, the Storm Water Management Fund was reclassified from an Enterprise Fund to a Special Revenue Fund.
- The City adopted GASB No. 34 during fiscal year 2002-03. Beginning fund balances were restated to reflect the implementation.
- During fiscal year 2002-03, the Transportation Fund was reclassified from a proprietary fund to a Special Revenue Fund. The 2002-03 beginning fund balance has been restated to reflect the change.
- During fiscal year 2003-04, the Special Assessment Revolving Fund was reclassified as an Internal Service Fund to properly reflect activity. The 2003-04 beginning fund balance has been restated to reflect this change.
- 2004-05 beginning fund balance has been restated to reflect prior year adjustment of \$9,228.

Source: City's Comprehensive Annual Financial Report

Changes in Fund Balances - Governmental Funds

	2001	2002	2003	2004	2005	2006
\$	28,305,098	\$ 28,050,741	\$ 31,421,623	\$ 34,391,476	\$ 27,104,030	\$ 27,008,416
	1,060,968	1,111,918	1,201,478	1,209,761	1,144,431	1,153,613
	537,986	505,920	527,862	658,986	650,985	653,100
	366,752	523,370	513,973	654,038	456,900	1,085,841
	15,005,438	9,505,270	8,204,655	8,218,218	7,955,247	7,973,317
	2,307,346	2,553,474	1,526,453	1,674,908	2,959,423	3,180,973
	553,197	615,346	639,979	769,802	793,634	179,854
	3,481,038	1,790,821	1,090,371	1,223,337	1,531,159	2,794,357
	1,921,416	2,692,831	1,482,955	2,951,076	2,796,229	1,712,922
	<u>53,539,239</u>	<u>47,349,691</u>	<u>46,609,349</u>	<u>51,751,602</u>	<u>45,392,038</u>	<u>45,742,393</u>
	3,867,774	4,119,864	3,045,366	3,224,627	4,742,397	4,884,935
	8,113,997	8,450,083	9,027,665	9,534,824	10,794,036	11,563,868
	3,876,751	4,612,907	4,668,967	4,473,457	4,751,201	4,971,656
	94,535	140,788	693,194	855,595	532,548	820,803
	2,014,722	2,049,099	2,001,410	2,094,872	2,094,429	2,346,672
	3,265,055	3,341,863	3,403,096	3,595,455	3,726,384	3,322,203
	3,048,146	3,204,195	2,711,273	3,386,441	3,541,448	3,630,846
	151,400	151,719	160,330	184,629	185,202	176,711
	-	-	1,224,537	1,321,997	1,427,883	1,598,969
	3,232,609	5,746,216	5,631,424	4,532,256	6,451,758	1,977,046
	3,024,167	3,365,541	2,989,362	3,874,156	4,108,730	4,470,025
	7,041,619	2,839,452	8,591,474	4,651,563	14,563,988	5,949,213
	1,097,000	1,241,000	125,000	135,000	135,000	75,000
	305,310	633,557	37,005	28,916	191,568	13,438
	<u>39,133,085</u>	<u>39,896,284</u>	<u>44,310,103</u>	<u>41,893,788</u>	<u>57,246,572</u>	<u>45,801,385</u>
	14,406,154	7,453,407	2,299,246	9,857,814	(11,854,534)	(58,992)
	-	-	239,390	240,038	215,411	184,721
	-	-	-	-	6,435,000	-
	5,993,632	5,731,387	5,653,166	8,845,871	11,328,105	9,465,578
	<u>(7,503,127)</u>	<u>(6,219,692)</u>	<u>(7,625,336)</u>	<u>(10,799,360)</u>	<u>(13,266,164)</u>	<u>(12,478,678)</u>
	(1,509,495)	(488,305)	(1,732,780)	(1,713,451)	4,712,352	(2,828,379)
	12,896,659	6,965,102	566,466	8,144,363	(7,142,182)	(2,887,371)
	<u>34,673,898</u>	<u>47,982,623</u>	<u>56,786,308</u>	<u>55,593,461</u>	<u>63,728,596</u>	<u>56,586,415</u>
\$	<u>47,570,557</u>	<u>54,947,725</u>	<u>57,352,774</u>	<u>63,737,824</u>	<u>56,586,414</u>	<u>53,699,044</u>
	4.44%	5.12%	0.46%	0.44%	0.77%	0.22%

City of Midland, Michigan

Revenue Capacity

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Midland, Michigan

Taxable Value and Actual Value of Taxable Property Year Ended June 30

Taxable Value by Property Type:

Real property:

Tax Year	Residential	Commercial	Industrial	Personal Property	IFT	Total Taxable	Tax Rate (mills)	Total SEV	Taxable Value as a % of Actual
1996	\$ 646,866,600	\$ 179,353,200	\$ 211,554,500	\$ 960,273,000	\$121,957,400	\$ 2,120,004,700	9.30	\$2,124,484,100	99.79
1997	675,481,900	179,139,100	211,076,500	956,887,900	145,478,130	2,168,063,530	11.60	2,174,477,530	99.71
1998	703,481,300	181,570,850	210,817,600	968,714,000	142,251,830	2,206,835,580	11.60	2,216,054,480	99.58
1999	726,144,500	189,808,100	216,895,700	1,011,985,200	163,321,930	2,308,155,430	12.12	2,340,610,630	98.61
2000	750,028,400	196,970,900	227,317,400	987,213,300	158,053,800	2,319,583,800	12.48	2,360,954,100	98.25
2001	786,634,000	205,720,100	228,985,300	1,018,557,300	145,765,400	2,385,662,100	12.00	2,437,284,700	97.88
2002	830,571,200	218,878,900	289,531,100	1,217,591,600	151,660,400	2,708,233,200	11.76	2,784,309,000	97.27
2003 (1)	855,523,000	228,369,000	875,691,600	434,258,000	145,920,900	2,539,762,500	12.90	2,819,138,400	90.09
2004	887,350,600	239,002,200	890,760,000	408,075,800	144,584,000	2,569,772,600	9.87	2,852,786,900	90.08
2005	921,024,100	248,085,800	878,201,900	384,728,900	121,477,400	2,553,518,100	9.79	2,811,712,100	90.82

(1) Buildings on leased land were reclassified from personal property to real property

Note: Under Michigan law, the revenue base is taxable value.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year.

Source: City Assessing Department

City of Midland, Michigan

Millage Rates - Direct City Taxes				Overlapping Taxes						
Tax Year	General Operating (1)	Debt	Total Direct Taxes*	Midland County	Bay County	Delta College	State Education	Bay/Arenac Intermediate School District	Midland Intermediate School District	School: Homestead Midland
1996	8.67	0.63	9.30	8.2096	9.8022	2.0427	6.0000	4.9656	1.1756	4.6400
1997	10.97	0.63	11.60 (2)	8.2874	9.6597	2.0427	6.0000	4.9656	1.1756	5.1762
1998	11.00	0.60	11.60 (2)	7.7254	9.9499	2.0427	6.0000	4.9656	1.1756	4.9211
1999	11.57	0.55	12.12 (2)	8.1955	9.9476	2.0427	6.0000	4.9596	1.1756	4.7248
2000	11.91	0.57	12.48 (2)	8.3155	10.9478	2.0427	6.0000	4.9596	1.1756	4.5237
2001	11.25	0.75	12.00 (2)	8.2655	10.9480	2.5427	6.0000	4.9594	1.1756	4.2526
2002	11.09	0.67	11.76 (2)	8.3055	10.9486	2.5427	6.0000	4.9594	1.1756	6.0970
2003	12.26	0.64	12.90 (2)	8.0255	10.9486	2.5427	5.0000	4.9568	1.1756	5.8585
2004	9.23	0.64	9.87 (3)	8.1455	11.0326	2.0427	6.0000	4.9458	1.1756	5.7692
2005	9.17	0.62	9.79	7.8255	10.9338	2.0427	6.0000	4.9425	1.1756	5.5909

* includes voter approved debt millage

Note: Tax rates are applied upon each \$1,000 of taxable value

- (1) City Charter authorizes 18 mills, but the State of Michigan Constitution (Headlee Amendment) restricts the maximum millage that may be levied by the City without a vote of our residents to 17.87 mills for General Operating.
- (2) The City of Midland property tax rate was increased in 1997/1998 through 2003/2004 for a special tax appeal millage.
- (3) The City of Midland property tax rate was decreased in 2004/2005 due, in part, to a reduction in the tax appeal millage.

Direct and Overlapping Property Tax Rates Year Ended June 30

Overlapping Taxes					Total Tax Rate					
School: Non-homestead Midland	School: Homestead Bullock Creek	School: Non-homestead Bullock Creek	School: Homestead Bay City	School: Non-homestead Bay City	Homestead Midland	Non-homestead Midland	Homestead Bay City	Non-homestead Bay City	Homestead Bullock Creek	Non-homestead Bullock Creek
17.2978	1.9900	19.9900	1.5000	19.5000	31.3679	44.0257	33.6105	51.6105	28.7179	46.7179
18.0000	1.9900	19.9900	1.5000	19.5000	34.2819	47.1057	35.7680	53.7680	31.0957	49.0957
18.0000	1.9900	19.9846	1.5000	19.5000	33.4648	46.5437	36.0582	54.0582	30.5337	48.5283
18.0000	1.9900	19.9108	1.5000	19.5000	34.2586	47.5338	36.5699	54.5699	31.5238	49.4446
18.0000	7.0000	24.9208	1.4000	19.4000	34.5375	48.0138	37.8301	55.8301	37.0138	54.9346
18.0000	7.0000	24.9208	1.2000	19.2000	34.2364	47.9838	37.6501	55.6501	36.9838	54.9046
20.0000	7.0000	24.9208	1.2000	19.2000	35.8808	49.7838	37.4107	55.4107	36.7838	54.7046
20.0000	7.0000	24.9208	1.1000	19.1000	35.5023	49.6438	37.4481	55.4481	36.6438	54.5646
20.0000	7.0000	24.9208	1.1000	19.1000	33.0030	47.2338	34.9911	52.9911	34.2338	52.1546
20.0000	7.0000	24.9208	1.1000	19.0640	32.4247	46.8338	34.8090	52.7730	33.8338	51.7546

City of Midland, Michigan

Principal Property Taxpayers Year Ended June 30, 2006

Taxpayer	2006 Taxable Value	Percentage of Total	1997 Taxable Value	Percentage of Total	1997 Rank
1 Midland Cogeneration Venture	\$ 634,311,100	25.27	\$ 551,639,200	27.27	1
2 Dow Chemical/Dow Agrosiences	424,095,300	16.90	407,429,900	20.14	2
3 Dow Corning	121,820,700	4.85	116,734,700	5.77	3
4 Consumers Power Company	16,706,000	0.67	26,209,900	1.30	4
5 Midland Venture Limited Partnership (Mall)	15,049,100	0.60	12,660,600	0.63	5
6 Meijers	7,887,900	0.31	7,178,900	0.36	6
7 Alliance TP Portfolio (Apartments)	6,415,100	0.26	-	-	0
8 Wal-Mart Stores Incorporated	6,223,600	0.25	-	-	0
9 Nicolaos Rapanos	6,206,200	0.25	6,731,600	0.33	8
10 Quebecor World Inc	6,132,400	0.24	-	-	0
Total	<u>\$ 1,244,847,400</u>	<u>49.60%</u>	<u>\$ 1,128,584,800</u>	<u>55.80%</u>	

The individual values are for real and personal property owned by the designated taxpayer, but not including industrial facilities taxable amounts.

Source: City's Assessing Department

City of Midland, Michigan

Property Tax Levies and Collections Year Ended June 30

Fiscal Year Ended June 30	Taxes Levied for Fiscal Year (Original Levy)	Adjustments	Total Adjusted Levy	Collected within the Fiscal Year of the Levy	Percentage of Original Levy Collected	Collections in Subsequent Years	Total Collections to Date	of Total Collections to Adjusted Tax Levy
1997	\$ 19,197,740	\$ (1)	\$ (1)	\$ 19,075,017	99.36	\$ (1)	\$ (1)	(1)
1998	24,355,288	(1)	(1)	24,154,200	99.17	(1)	(1)	(1)
1999	24,817,502	(1)	(1)	24,705,051	99.55	(1)	(1)	(1)
2000	27,029,454	(46,751)	26,982,703	26,786,861	99.10	194,680	26,981,541	99.99
2001	28,005,663	37,216	28,042,879	27,763,188	99.13	230,784	27,993,972	99.83
2002	27,793,182	(162,694)	27,630,488	27,567,733	99.19	(27,541)	27,540,192	99.67
2003	28,804,136	(119,424)	28,684,712	28,488,644	98.90	101,940	28,590,584	99.67
2004	31,708,040	(106,158)	31,601,882	31,470,866	99.25	114,263	31,585,129	99.95
2005	24,169,118	23,450	24,192,568	23,967,130	99.16	213,052	24,180,182	99.95
2006	24,355,843	-	24,355,843	24,337,402	99.92	-	24,337,402	99.92

(1) Not available

Source: City Treasurer's Office

Debt Capacity

These schedules contain trend information to help the reader assess the affordability of the City's current levels of outstanding debt, and the City's ability to issue additional debt in the future.

City of Midland, Michigan

	1997	1998	1999	2000
Governmental Activities				
General obligation bonds	\$ 1,035,000	\$ 970,000	\$ 900,000	\$ 820,000
Capital leases	<u>2,208,535</u>	<u>2,124,090</u>	<u>2,039,044</u>	<u>1,953,211</u>
Total governmental activities	3,243,535	3,094,090	2,939,044	2,773,211
Business-type Activities				
General obligation bonds	10,670,000	9,480,000	8,295,000	7,130,000
Revenue bonds	<u>18,510,000</u>	<u>16,970,000</u>	<u>15,250,000</u>	<u>12,865,000</u>
Total business-type activities	29,180,000	26,450,000	23,545,000	19,995,000
Total debt of the government	<u>32,423,535</u>	<u>29,544,090</u>	<u>26,484,044</u>	<u>22,768,211</u>
Total taxable value	1,998,047,300	2,022,585,400	2,064,583,750	2,144,833,500
Ratio of total debt to taxable value	1.62%	1.46%	1.28%	1.06%
Total population (2)	40,210	40,600	40,650	40,700
Total debt per capita	\$ 806	\$ 728	\$ 652	\$ 559

(1) Includes civic arena bonds of \$6,500,000 that were classified as governmental in 2005, but were reclassified as business-type in 2006

(2) Estimates provided by City Planning Department

Source: City Annual Financial Statements: Population Data reported from demographics data

**Ratios of Outstanding Debt
Year Ended June 30**

2001	2002	2003	2004	2005	2006
\$ 735,000	\$ 645,000	\$ 520,000	\$ 385,000	\$ 6,750,000	(1) \$ 175,000
<u>1,849,806</u>	<u>1,745,505</u>	<u>1,807,537</u>	<u>1,651,488</u>	<u>1,498,454</u>	<u>1,330,510</u>
2,584,806	2,390,505	2,327,537	2,036,488	8,248,454	1,505,510
19,465,000	18,823,280	20,838,961	19,465,886	17,709,063	22,429,063
<u>11,085,000</u>	<u>9,825,000</u>	<u>8,500,000</u>	<u>7,110,000</u>	<u>5,775,000</u>	<u>4,620,000</u>
30,550,000	28,648,280	29,338,961	26,575,886	23,484,063	27,049,063
<u>33,134,806</u>	<u>31,038,785</u>	<u>31,666,498</u>	<u>28,612,374</u>	<u>31,732,517</u>	<u>28,554,573</u>
2,161,530,000	2,239,896,700	2,556,572,800	2,389,338,500	2,425,188,600	2,432,040,700
1.53%	1.39%	1.24%	1.20%	1.31%	1.17%
41,685	41,810	41,935	42,092	42,175	42,175
\$ 795	\$ 742	\$ 755	\$ 680	\$ 752	\$ 677

City of Midland, Michigan

Ratios of General Bonded Debt Outstanding Year Ended June 30

Fiscal Year	General Bonded Debt	Total General Bonded Debt Outstanding	Taxable Value	Debt as a Percentage of Taxable Value	Population	Debt Per Capita
1997	\$ 1,035,000	\$ 1,035,000	\$ 1,998,047,300	0.05	40,210 (2)	25.74
1998	970,000	970,000	2,022,585,400	0.05	40,600 (2)	23.89
1999	900,000	900,000	2,064,583,750	0.04	40,650 (2)	22.14
2000	820,000	820,000	2,144,833,500	0.04	40,700 (2)	20.15
2001	735,000	735,000	2,161,530,000	0.03	41,685 (3)	17.63
2002	645,000	645,000	2,239,896,700	0.03	41,810 (2)	15.43
2003	520,000	520,000	2,556,572,800	0.02	41,935 (2)	12.40
2004	385,000	385,000	2,389,338,500	0.02	42,092 (2)	9.15
2005	6,750,000 (1)	6,750,000	2,425,188,600	0.28	42,175 (2)	160.05
2006	175,000	175,000	2,432,040,700	0.01	42,175 (2)	4.15

(1) Includes civic arena bonds of \$6,500,000 that were classified as governmental in 2005, but were reclassified as business-type in 2006.

(2) Estimates provided by City Planning Department

(3) U.S. Bureau of the Census

Source: City's financial records

City of Midland, Michigan

Direct and Overlapping Debt Year Ended June 30, 2006

Governmental Unit	Debt Outstanding	Estimated % Applicable	Estimated Share of Overlapping Debt
Direct debt - City of Midland	\$ 27,224,063	100.00	\$ 27,224,063
Overlapping debt:			
Bay City School District	10,490,000	0.29	30,421
Bullock Creek School District	15,539,904	1.60	248,638
Bay County	28,744,729	0.17	48,866
Midland County	1,882,575	69.82	1,314,414
Bay-Arenac Intermediate School District	<u>475,000</u>	0.15	<u>713</u>
Total overlapping debt	<u>57,132,208</u>		<u>1,643,052</u>
Total	<u>\$ 84,356,271</u>		<u>\$ 28,867,115</u>

City of Midland, Michigan

	Fiscal Year			
	1997	1998	1999	2000
Debt limit	\$ 199,804,730	\$ 202,258,540	\$ 206,454,375	\$ 214,483,350
Total net debt applicable to limit	<u>9,571,000</u>	<u>8,554,000</u>	<u>7,536,000</u>	<u>6,524,000</u>
Legal debt margin	<u>\$ 190,233,730</u>	<u>\$ 193,704,540</u>	<u>\$ 198,918,375</u>	<u>\$ 207,959,350</u>
Total net debt applicable to the limit as a percentage of debt limit	4.79%	4.23%	3.65%	3.04%

Legal Debt Margin Calculation for Fiscal Year 2006

Debt Limit:

2006 State equalized valuation	\$ 2,811,712,100
Debt limit (10% of State equalized valuation) (1)	x <u>10.00%</u>

Total debt limit 281,171,210

Debt Applicable to Debt Limit:

Total bonded debt	\$ 27,224,063
Less deductions allowed by law - Revenue bonds	<u>4,620,000</u>

Total amount of debt applicable to debt limit 22,604,063

Legal debt margin \$ 258,567,147

Limitations on Borrowing

(1) Act 279, Public Acts of Michigan, 1909, as amended, and provisions of the City Charter state that net bonded indebtedness of the City shall not exceed 10 percent of the City's assessed valuation.

Bonds which are not required to be included in this computation of net indebtedness, according to said Act 279, are:

- A. Special Assessment Bonds
- B. Mortgage Bonds
- C. Motor Vehicle Highway Fund Bonds
- D. Revenue Bonds
- E. Bonds issued, or contracts or assessment obligation, incurred to comply with an order of the Water Resources Commission or a court of competent jurisdiction
- F. Other obligations incurred for water supply, sewage, drainage or refuse disposal projects necessary to protect the public health by abating pollution.

**Legal Debt Margin
Year Ended June 30**

Fiscal Year					
2001	2002	2003	2004	2005	2006
\$ 216,153,000	\$ 223,989,670	\$ 255,657,280	\$ 238,933,850	\$ 242,518,860	\$ 281,171,210
<u>13,587,000</u>	<u>12,857,968</u>	<u>13,688,377</u>	<u>12,514,532</u>	<u>17,600,438</u>	<u>22,604,063</u>
<u>\$ 202,566,000</u>	<u>\$ 211,131,702</u>	<u>\$ 241,968,903</u>	<u>\$ 226,419,318</u>	<u>\$ 224,918,422</u>	<u>\$ 258,567,147</u>
6.29%	5.74%	5.35%	5.24%	7.26%	8.04%

City of Midland, Michigan

Pledge-revenue Coverage Year Ended June 30

Fiscal Year	Water Revenue Bonds						
	Gross	Operating	Net Revenues	Debt service			Coverage
	Revenues	Expenses		Principal	Interest	Total	
1997	\$ 7,763,929	\$ 4,896,789	\$ 2,867,140	\$ 980,000	\$ 1,160,779	\$ 2,140,779	1.34
1998	8,257,530	5,184,391	3,073,139	975,000	1,099,263	2,074,263	1.48
1999	8,923,318	5,522,026	3,401,292	1,120,000	1,033,063	2,153,063	1.58
2000	9,336,542	6,782,050	2,554,492	1,745,000	992,439	2,737,439	0.93
2001	8,937,836	5,932,598	3,005,238	1,105,000	587,603	1,692,603	1.78
2002	9,587,590	6,108,391	3,479,199	1,260,000	534,970	1,794,970	1.94
2003	9,732,581	5,924,678	3,807,903	1,325,000	475,294	1,800,294	2.12
2004	9,801,295	6,266,043	3,535,252	1,390,000	428,090	1,818,090	1.94
2005	10,307,652	7,165,252	3,142,400	1,335,000	328,336	1,663,336	1.89
2006	10,479,448	7,589,809	2,889,639	1,155,000	295,680	1,450,680	1.99

City of Midland, Michigan

Demographic and Economic Statistics Year Ended June 30

Fiscal year	Population	Personal Income (in thousands)	Per Capita Personal Income (2)	Median Age (2)	Unemployment Rate (4)
1997	40,210 (1)	(3)	\$ 19,347	33.1	2.3
1998	40,600 (1)	(3)	19,347	33.1	2.1
1999	40,650 (1)	(3)	19,347	33.1	1.9
2000	40,700 (1)	(3)	19,347	33.1	2.5
2001	41,685 (2)	(3)	26,818	36.2	3.2
2002	41,810 (1)	(3)	26,818	36.2	4.1
2003	41,935 (1)	(3)	26,818	36.2	4.8
2004	42,092 (1)	(3)	26,818	36.2	4.8
2005	42,175 (1)	(3)	26,818	36.2	4.4
2006	42,175 (1)	(3)	26,818	36.2	4.2

(1) Estimates provided by City Planning Department

(2) U.S. Bureau of the Census

(3) Information not available

(4) Michigan Department of Labor and Economic Growth

City of Midland, Michigan

Principal Employers Year Ended June 30, 2006

Taxpayer	2006 Employees	Percentage of Total	1997 Employees	Percentage of Total	1997 Rank
1 Dow Chemical Company	5,800	29.03	(1)	(1)	(1)
2 MidMichigan Medical Center	3,200	16.02	(1)	(1)	(1)
3 Midland Public Schools	1,796	8.99	(1)	(1)	(1)
4 Dow Corning Corporation	1,654	8.28	(1)	(1)	(1)
5 Midland Mall	850	4.25	(1)	(1)	(1)
6 Meijers	600	3.00	(1)	(1)	(1)
7 Quebecor Printing / Pendell Inc	500	2.50	(1)	(1)	(1)
8 City of Midland	495	2.48	(1)	(1)	(1)
9 Chemical Bank & Trust Company	420	2.10	(1)	(1)	(1)
10 County of Midland	332	1.66	(1)	(1)	(1)

(1) Information not available

City of Midland, Michigan

Full-time Government Employees Year Ended June 30

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government										
City Manager	5	5	5	5	5	5	5	5	4	4
City Clerk/(Treasurer)	8	9	9	9	9	9	9	9	4	4
City Treasurer	0	0	0	0	0	0	0	0	6	6
Assessing	4	4	4	5	5	6	6	6	6	5
City Attorney	2	2	2	2	2	3	3	3	3	3
Finance	6	6	6	7	7	7	7	7	7	7
Human Resources/Risk Management	5	5	5	5	5	5	5	5	5	5
Purchasing	1	1	1	1	1	1	1	1	1	1
Planning	6	5	5	5	6	6	6	6	6	6
Public safety:										
Police	52	51	50	50	50	50	52	52	52	51
Fire	47	46	46	46	46	46	46	46	46	46
Building inspection	8	8	8	8	8	8	8	8	7	7
Public works:										
Engineering	13	13	13	13	14	15	15	15	15	15
Public Works	43	43	43	43	44	44	46	45	44	44
Parks and recreation	34	32	33	33	33	35	35	36	33	33
Library	20	21	23	23	23	23	23	23	23	23
Downtown Development Authority	0	0	0	0	0	0	0	0	1	1
Transportation (Dial-A-Ride)	8	7	7	7	7	7	7	7	7	7
Landfill	8	8	8	8	8	8	8	8	8	8
Senior Housing										
Washington Woods	9	9	9	9	8	8	8	8	8	8
Riverside Place	6	6	6	6	6	6	6	6	6	6
Wastewater	21	21	22	22	22	22	22	22	22	22
Water	32	32	32	34	35	36	36	36	36	36
Cable Communication	3	3	3	3	3	4	4	4	4	4
Equipment Revolving	16	15	15	15	15	15	15	15	15	15
Municipal Service Center	0	0	0	0	0	0	0	0	1	1
Data Processing	<u>7</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>9</u>
Total	<u>364</u>	<u>360</u>	<u>363</u>	<u>367</u>	<u>370</u>	<u>377</u>	<u>380</u>	<u>380</u>	<u>377</u>	<u>377</u>

City of Midland, Michigan

Function/ Program	1997	1998	1999	2000
General government				
Building permits issued	NA	NA	NA	2,414 (a)
Building inspections conducted	NA	NA	NA	2,216 (a)
Public safety				
Police				
Physical arrests	NA	NA	NA	NA
Traffic violations	NA	7,480	9,201	8,864
Investigations/complaints	NA	16,705	17,042	15,872
Fire				
Fire runs	139	103	129	147
Rescue/medical	1,883	2,001	2,220	2,330
Hazardous	382	442	330	319
All other calls	624	742	820	762
Public works				
Street maintenance (millions of dollars)	\$ 1.68	\$ 1.43	\$ 1.70	\$ 2.80
Sidewalk maintenance (thousands of dollars)	\$ 225.20	\$ 345.80	\$ 319.70	\$ 422.09
Refuse collected (compacted cubic yards)	55,689	59,423	54,480	57,415
Brush and heavy item (cubic yards)	49,300	39,700	46,551	48,160
Fall leaf collection (cubic yards)	38,400	46,800	49,200	59,600
Parks and recreation				
Softball teams supported	302	301	321	315
Picnic reservations (sheltered and open area)	915	939	1,410	978
Library				
Volumes in collection	NA	246,647	250,604	256,287
Circulation (books borrowed)	NA	826,554	800,845	802,826
Airport (take-offs and landings)	15,712	17,335	20,483	16,196
Landfill				
Vehicle traffic	29,870	30,452	30,611	31,690
Tons per day	350	384	399	441
Senior housing apartment complexes				
Washington Woods				
Occupancy	100%	100%	100%	100%
Percent turnover	23%	19%	12%	23%
Average age of residents	NA	NA	NA	NA
Riverside Place				
Occupancy	100%	100%	100%	100%
Percent turnover	19%	21%	25%	29%
Average age of residents	NA	NA	NA	NA
Public transportation (passengers served)	178,961	176,150	152,400	150,936
Sewer				
Average daily sewage treatment (MGD)	NA	9.70 (b)	6.76	6.21
Annual sewage treatment (MG)	NA	1,765.40 (b)	2,467.40	2,266.70
Water				
Finished water pumped (MG)				
Domestic	3,181.66	3,321.21	3,456.60	3,260.57
Industrial	4,789.26	4,756.51	4,578.60	4,684.26
Total	7,970.92	8,077.72	8,035.20	7,944.83

NA - Information not available

MG - Million gallons

MGD - Million gallons/day

(a) Ten months only - Sept/June 2000

(b) Six months only - Jan/June 1998

Sources: City records, city departments, department annual reports, and city website - www.midland-mi.org

Operating Information
Operating Indicators
Year Ended June 30

2002	2003	2004	2005	2006
3,513	3,427	3,244	3,341	3,127
4,831	4,309	4,409	6,314	5,642
1,237	1,261	1,522	1,477	1,406
8,473	8,994	7,989	6,598	7,719
15,245	15,557	15,049	15,243	15,554
97	83	81	96	92
2,456	2,422	2,432	2,570	2,683
360	365	397	315	577
628	663	820	870	930
\$ 2.50	\$ 2.20	\$ 1.79	\$ 1.85	\$ 2.13
\$ 460.00	\$ 309.00	\$ 346.82	\$ 346.34	\$ 362.82
53,320	54,690	62,190	62,994	64,316
50,715	56,230	67,975	57,605	70,946
61,060	67,685	63,496	70,160	67,872
385	340	333	334	334
896	931	997	700	758
266,501	272,145	269,182	275,089	282,281
846,511	865,806	825,496	822,203	796,540
17,375	14,717	13,415	14,699	10,847
31,981	28,840	36,499	35,730	35,907
468	419	513	466	467
100%	100%	100%	100%	99%
23%	21%	22%	17%	23%
83	83	83	85	85
100%	100%	100%	100%	100%
20%	24%	24%	23%	25%
84	84	85	86	85
147,475	146,404	144,992	154,553	161,497
7.81	5.24	7.44	6.46	7.22
2,850.70	1,912.60	2,715.60	2,375.90	2,635.30
3,372.26	3,401.72	3,358.12	3,503.34	3,501.33
4,928.16	4,935.65	4,569.25	4,566.05	4,320.86
8,300.42	8,337.37	7,927.37	8,069.39	7,822.19

City of Midland, Michigan

Function/ Program	1997	1998	1999	2000	2001
Public safety					
Police					
Stations	1	1	1	1	1
Patrol units	14	14	14	14	14
Detective vehicles	4	4	4	4	4
SWAT van	1	1	1	1	1
Administrative and warrant officer vehicle	4	4	4	4	4
Fire					
Stations	3	3	3	3	3
Fire response vehicles	6	6	6	6	6
Emergency response vehicles	1	1	1	1	1
Public works					
Major streets (miles)	77	77	78	78	78
Local streets (miles)	138	142	144	146	147
State highways (miles)	16	16	16	16	16
Sidewalks (miles)	338	340	341	343	345
Traffic signals (city owned)	67	68	69	72	72
Refuse collection trucks	NA	NA	13	13	13
Parks and recreation					
Acreage	2,700	2,700	2,700	2,700	2,700
Regional park and recreation areas	6	6	6	6	6
Community parks	8	8	8	8	8
Block and district parks	60	60	61	61	61
Golf courses					
9-hole municipal par-3	-	-	1	1	1
18-hole municipal	-	-	-	-	-
27-hole municipal (a)	1	1	1	1	1
Golf course clubhouse	1	1	1	1	1
Ice arena (b)	1	1	1	1	1
Swimming pool	2	2	1	1	1
Skateboard park	-	-	-	1	1
Spray ground facilities	-	-	-	-	-
Library branches	1	1	1	1	1
Airport					
Runways	2	2	2	2	2
Terminal building (c)	1	1	1	1	1
City-owned hangars (leased)	14	14	14	14	14
Public transportation-Dial-A-Ride buses	14	14	14	14	14
Landfill					
Current airspace (compacted cubic yards) (d)	825,408	793,027	608,734	426,204	253,048
Total future airspace (compacted cubic yards) (e)	10,163,490	10,131,109	9,946,816	9,764,286	9,591,130
Senior housing apartment complexes					
Washington Woods (units)	214	214	214	214	214
Riverside Place (units)	150	150	150	150	150
Sewer					
Sanitary sewers (miles)	177	178	181	182	183
Storm sewers (miles)	162	163	163	164	165
Treatment capacity (million gallons/day)	18	18	18	18	18
Water (f)					
Water mains (miles)	234	237	239	301	305
Fire hydrants	1,640	1,812	1,812	2,205	2,205
Storage capacity (million gallons)	14.41	14.41	14.41	14.41	14.41
Treatment plant capacity (million gallons/day)					
Potable water	28.8	28.8	28.8	28.8	28.8
Industrial grade water	19.2	19.2	19.2	19.2	19.2
Total	48.0	48.0	48.0	48.0	48.0

NA - Information not available

(a) In FY01/02 an additional nine-holes were added to the 27-hole course to create two 18-hole courses.

(b) A new 3-sheet arena on Fast Ice Drive opened in September 2005 replacing the old 2-sheet arena on East Collins.

(c) In FY05/06 a new 2,100 sq ft terminal building opened replacing a 1,200 sq ft terminal built in 1950.

(d) Current airspace = remaining airspace in currently constructed cells

(e) Total future airspace = remaining airspace in currently constructed cells as well as cells to be constructed in the future

(f) Raw water is pumped from Lake Huron by the Saginaw-Midland Municipal Water Supply Corporation, a facility owned jointly by the two cities. The raw water is then pumped to the two communities for treatment at their individual treatment plants.

Operating Information
Capital Asset Statistics
Year Ended June 30

2002	2003	2004	2005	2006
1	1	1	1	1
14	14	14	14	14
4	4	4	4	4
1	1	1	1	1
4	4	4	4	4
3	3	3	3	3
6	6	6	6	6
1	1	1	1	1
78	78	78	78	78
148	152	152	152	154
16	16	16	16	16
346	346	347	351	352
72	72	72	72	73
13	13	13	13	13
2,700	2,700	2,700	2,700	2,700
6	6	6	8	8
8	8	8	7	7
61	61	61	55	55
1	1	1	1	1
2	2	2	2	2
-	-	-	-	-
1	2	2	2	2
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
1	1	1	2	2
1	1	1	1	1
2	2	2	2	2
1	1	1	1	1
14	14	14	14	14
14	14	14	14	14
231,191	40,410	1,496,495	1,158,830	1,126,046
9,569,273	9,378,492	9,262,950	8,925,285	8,965,124
214	214	214	214	214
150	150	150	150	150
189	191	194	195	195
166	167	168	170	171
18	18	18	18	18
306	306	306	306	308
2,350	2,558	2,558	2,701	2,758
14.41	14.41	14.41	14.41	14.41
28.8	28.8	28.8	28.8	28.8
19.2	19.2	19.2	19.2	19.2
48.0	48.0	48.0	48.0	48.0

City of Midland, Michigan

Fiscal Year	Property Taxes	State-shared Revenue	Other Agencies	Investment Earnings
1995-96	\$ 19,269,784	\$ 5,844,633	\$ 381,968	\$ 918,752
1996-97	19,543,640	5,972,778	196,356	1,123,333
1997-98	25,628,944	6,434,629	261,120	1,483,895
1998-99	26,087,384	7,006,247	427,159	1,776,451
1999-00	28,353,669	7,214,638	285,067	2,356,193
2000-01	29,366,066	7,801,807	521,035	3,137,488
2001-02	29,162,659	7,837,492	521,624	1,507,370
2002-03*	32,623,101	8,190,673	513,973	1,035,995
2003-04*	35,601,237	8,111,101	642,196	1,147,227
2004-05*	28,248,461	7,936,192	456,900	1,424,902
Percent of				
1995-96	63.38%	19.22%	1.26%	3.02%
1996-97	62.17	19.00	0.62	3.57
1997-98	67.27	16.89	0.69	3.89
1998-99	65.31	17.54	1.07	4.45
1999-00	66.89	17.02	0.67	5.56
2000-01	64.58	17.16	1.15	6.90
2001-02	66.09	17.76	1.18	3.42
2002-03	70.98	17.82	1.12	2.25
2003-04	70.53	16.07	1.27	2.27
2004-05	64.29	18.06	1.04	3.24

General Revenue by Source
Year Ended June 30

Charges for Services	Use and Admission Fees	Library Services	Licenses and Permits	Other Revenues	Total
\$ 929,196	\$ 475,320	\$ 483,438	\$ 398,067	\$ 1,704,185	\$ 30,405,343
938,305	499,520	520,238	533,449	2,106,415	31,434,034
983,575	481,528	580,841	510,921	1,732,856	38,098,309
1,357,534	514,985	511,334	442,978	1,819,066	39,943,138
1,570,854	544,312	533,010	442,361	1,091,151	42,391,255
1,728,087	553,197	579,259	537,986	1,248,097	45,473,022
2,001,906	615,346	551,568	505,920	1,424,912	44,128,797
942,646	639,979	583,807	527,862	901,467	45,959,503
939,090	769,802	735,818	658,986	1,870,217	50,475,674
2,271,604	793,634	616,097	650,985	1,537,142	43,935,917

Total Revenue

3.06%	1.56%	1.59%	1.31%	5.60%
2.98	1.59	1.66	1.70	6.71
2.58	1.26	1.52	1.34	4.56
3.40	1.29	1.28	1.11	4.55
3.71	1.28	1.26	1.04	2.57
3.80	1.22	1.27	1.18	2.74
4.54	1.39	1.25	1.15	3.22
2.05	1.39	1.27	1.15	1.97
1.86	1.53	1.46	1.31	3.70
5.17	1.81	1.40	1.48	3.51

City of Midland, Michigan

Fiscal Year	Public Safety	Public Works	Parks and Recreation	General Government
1995-96	\$ 8,599,968	\$ 5,397,934	\$ 2,945,419	\$ 3,135,626
1996-97	8,618,067	5,400,266	2,893,703	3,358,226
1997-98	8,116,770	5,665,048	3,129,166	3,990,861
1998-99	8,425,944	5,596,876	3,065,359	5,614,263
1999-00	8,070,567	5,722,972	3,124,882	3,506,126
2000-01	8,113,997	6,494,579	3,265,055	3,867,774
2001-02	8,450,083	6,662,006	3,341,863	4,119,864
2002-03*	9,027,665	14,374,248 (-1)	3,403,096	3,199,646
2003-04*	9,534,824	11,053,409 (-1)	3,595,455	3,299,564
2004-05*	10,904,979	20,918,275 (-1)	3,819,880	4,606,024

	Percent of			
1995-96	32.13%	20.17%	11.00%	11.71%
1996-97	31.01	19.43	10.41	12.08
1997-98	28.31	19.76	10.91	13.92
1998-99	27.90	18.53	10.15	18.59
1999-00	25.98	18.43	10.06	11.29
2000-01	24.82	19.86	9.99	11.83
2001-02	22.80	17.98	9.02	11.12
2002-03	20.37	32.44	7.68	7.22
2003-04	22.76	26.38	8.58	7.88
2004-05	19.08	36.60	6.68	8.06

*Includes additional Special Revenue Funds as a result of the City's implementation of GASB34. Prior fiscal year numbers were not restated to reflect these additional funds.

**General Expenditures by Function
Year Ended June 30**

Debt Retirement	Library	Airports	Other Functions	Total
\$ 1,484,170	\$ 2,258,539	\$ 210,526	\$ 2,734,777	\$ 26,766,959
1,423,832	2,444,086	160,434	3,492,060	27,790,674
1,455,820	2,707,571	103,921	3,504,589	28,673,746
1,415,032	2,785,100	103,296	3,198,509	30,204,379
1,363,614	2,991,871	266,376	6,012,832	31,059,240
1,402,310	3,048,146	151,400	6,351,311	32,694,572
1,874,557	3,204,195	151,719	9,252,545	37,056,832
162,005	3,392,062	160,330	10,591,051 (2)	44,310,103
163,916	3,476,621	184,629	10,585,370 (2)	41,893,788
326,567	3,729,225	201,404	12,648,068 (2)	57,154,422

Total Expenditures

5.54%	8.44%	0.79%	10.22%
5.12	8.79	0.58	12.58
5.08	9.44	0.36	12.22
4.68	9.22	0.34	10.59
4.39	9.63	0.86	19.36
4.29	9.32	0.46	19.43
5.06	8.65	0.41	24.96
0.37	7.66	0.36	23.90
0.39	8.30	0.44	25.27
0.57	6.52	0.35	22.14

City of Midland, Michigan

Tax Information **Year Ended June 30, 2006**

<u>Purpose</u>	<u>Authority</u>	<u>Rate per \$1,000 Taxable Value</u>
Police and fire	Act 345, Public Acts of	
Pension requirements	Michigan, 1937 as amended	\$2.00
Refuse collection and disposal	Act 298, Public Acts of	
	Michigan, 1917, as amended	\$3.00

City of Midland, Michigan

Value of Taxable Property Year Ended June 30

Fiscal Year	Real Property		Personal Property		Total	
	Taxable Value	Full Value	Taxable Value	Full Value	Taxable Value	Full Value
1995-96	\$ 1,010,005,100	\$ 2,026,398,200	\$ 959,031,900	\$ 1,918,063,800	\$ 1,969,037,000	\$ 3,944,462,000
1996-97	1,037,774,300	2,084,502,800	960,273,000	1,920,546,000	1,998,047,300	4,005,048,800
1997-98	1,065,697,500	2,144,223,000	956,887,900	1,913,775,800	2,022,585,400	4,057,998,800
1998-99	1,095,869,750	2,210,177,300	968,714,000	1,937,428,000	2,064,583,750	4,147,605,300
1999-00	1,132,848,300	2,265,696,600	1,011,985,200	2,023,970,400	2,144,833,500	4,289,667,000
2000-01	1,174,316,700	2,348,633,400	987,213,300	1,974,426,600	2,161,530,000	4,323,060,000
2001-02	1,221,339,400	2,442,678,800	1,018,557,300	2,037,114,600	2,239,896,700	4,479,793,400
2002-03	1,338,981,200	2,677,962,400	1,217,591,600	2,435,183,200	2,556,572,800	5,113,145,600
2003-04 (1)	1,959,583,600	3,919,167,200	434,258,000	868,516,000	2,393,841,600	4,787,683,200
2004-05	2,017,112,800	4,034,225,600	408,075,800	816,151,600	2,425,188,600	4,850,377,200

(1) For 2003-04, buildings on leased land were reclassified from personal property to real property.

City of Midland, Michigan

Property Tax Levies and Collections Year Ended June 30

Fiscal Year	Original Tax Levy	Current Tax Collections	Percent Collected Current	Delinquent Tax Collections	Total Tax Collections
1995-96	\$ 18,931,761	\$ 18,757,494	99.1	\$ 1,519	\$ 18,757,494
1996-97	19,197,740	19,075,017	99.2	31,231	19,075,017
1997-98	24,355,288	24,154,200	99.0	30,791	24,154,200
1998-99	24,817,502	24,705,051	99.3	43,329	24,705,051
1999-00	27,029,454	26,786,861	99.1	5,151	26,786,861
2000-01	28,005,663	27,763,188	99.1	2,215	27,763,188
2001-02	27,793,182	27,567,733	99.1	21,766	27,567,733
2002-03	28,804,136	28,488,644	98.8	6,815	28,488,644
2003-04	31,708,040	31,470,866	99.2	10,283	31,470,866
2004-05	24,169,118	23,967,130	99.2	8,098	23,975,228

Source - City's Financial Records

City of Midland, Michigan

Property Tax - Direct and Overlapping Year Ended June 30

Fiscal Year	City of Midland *	Midland Public School District	Midland County	Delta College	Midland Intermediate School District	State Education
1995-96						
Homestead	9.300	5.3257	7.4513	2.0427	1.1756	6.00
Non-Homestead	9.300	18.0000	7.4513	2.0427	1.1756	6.00
1996-97						
Homestead	9.300	4.6400	8.2096	2.0427	1.1756	6.00
Non-Homestead	9.300	17.2978	8.2096	2.0427	1.1756	6.00
1997-98						
Homestead	11.600 (1)	5.1762	8.2874	2.0427	1.1756	6.00
Non-Homestead	11.600 (1)	18.0000	8.2874	2.0427	1.1756	6.00
1998-99						
Homestead	11.600 (1)	4.9211	7.7254	2.0427	1.1756	6.00
Non-Homestead	11.600 (1)	18.0000	7.7254	2.0427	1.1756	6.00
1999-00						
Homestead	12.120 (1)	4.7248	8.1955	2.0427	1.1756	6.00
Non-Homestead	12.120 (1)	18.0000	8.1955	2.0427	1.1756	6.00
2000-01						
Homestead	12.480 (1)	4.5237	8.3155	2.0427	1.1756	6.00
Non-Homestead	12.480 (1)	18.0000	8.3155	2.0427	1.1756	6.00
2001-02						
Homestead	12.000 (1)	4.2526	8.2655	2.5427	1.1756	6.00
Non-Homestead	12.000 (1)	18.0000	8.2655	2.5427	1.1756	6.00
2002-03						
Homestead	11.760 (1)	6.0970	8.3055	2.5427	1.1756	6.00
Non-Homestead	11.760 (1)	20.0000	8.3055	2.5427	1.1756	6.00
2003-04						
Homestead	12.900 (1)	5.8585	8.0255	2.5427	1.1756	5.00
Non-Homestead	12.900 (1)	20.0000	8.0255	2.5427	1.1756	5.00
2004-05						
Homestead	9.870 (2)	5.7692	8.1455	2.0427	1.1756	6.00
Non-Homestead	9.870 (2)	20.0000	8.1455	2.0427	1.1756	6.00

* Includes voter approved debt millage

Note: Tax rates are applied upon each \$1,000 of taxable value

(1) The City of Midland property tax rate was increased in 1997/1998 through 2003/2004 for a special tax appeal millage.

(2) The City of Midland property tax was decreased in 2004/2005 due, in part, to a reduction in the tax appeal millage.

Source: City's Assessing Department

City of Midland, Michigan

Property Tax Levies Year Ended June 30

Fiscal Year	City of Midland (B)	School Districts (C)	Counties (D)	Delta College	Downtown Development Authority	Total
1995-96	\$ 18,931,761	\$ 44,529,388	\$ 15,142,098	\$ 4,158,269	\$ 38,977	\$ 82,800,493
1996-97	19,197,740	43,538,780	16,954,058	4,216,688	39,781	83,947,047
1997-98	25,270,017	45,411,140	17,394,402	4,288,843	39,225	92,403,627
1998-99	25,734,200	45,902,084	16,555,870	4,370,237	39,987	92,602,378
1999-00	28,006,562	47,811,260	18,282,506	4,555,526	40,064	98,695,918
2000-01	28,992,276	47,717,179	18,668,999	4,583,778	37,884	100,000,116
2001-02	28,810,150	48,840,260	19,151,033	5,889,017	39,448	102,729,908
2002-03	32,145,783	58,803,485	20,365,637	6,697,617	40,758	118,053,280
2003-04	32,843,747	53,725,916	19,742,117	6,252,743	40,807	112,605,330
2004-05	25,635,655	56,182,963	19,958,895	5,085,164	39,616	106,902,293

(A) Reported amount includes TIF proceeds.

(B) 1997-98 through present amounts include a 1% tax administration fee.

(C) Includes the portion of these taxing units located within the City Limits: Midland Public Schools, Midland County Education Services Agency, Bay-Arenac Intermediate School District, Bullock Creek Schools, Bay City Schools and State Education tax.

(D) Includes the portion of these taxing units located within the City Limits: Midland County and Bay County.

Source - City's Assessing Department.

City of Midland, Michigan

Ten Largest Taxpayers Year Ended June 30, 2006

	Taxable Value	Percentage of City Total
Midland Cogeneration Venture	\$ 601,572,800	24.80%
Dow Chemical/Dow Agrosiences	414,400,100	17.09
Dow Corning	175,113,400	7.22
Consumers Power Company	16,466,900	0.68
Midland Venture Limited Partnership (Mall)	14,236,200	0.59
Meijers Inc	6,411,100	0.26
Alliance TP Portfolio (Apartments)	6,029,000	0.25
IBM Credit LLC	5,923,500	0.24
Nicolaos Rapanos	5,543,000	0.23
MVCC Ltd. Partnership (Ashman Court Hotel)	5,293,200	0.22
Total	<u><u>\$ 1,250,989,200</u></u>	<u><u>51.58%</u></u>
City of Midland Total	<u><u>\$ 2,425,188,600</u></u>	

The individual values are for real and personal property owned by the designated taxpayer, but not including industrial facilities taxable amounts.

Source - City Assessing Department

City of Midland, Michigan

Special Assessment Collection Year Ended June 30

Fiscal Year	Current Special Assessment Installment Due	Total Current and Delinquent Collections*
1995-96	\$ 511,742	\$ 511,742
1996-97	407,698	407,698
1997-98	356,859	356,859
1998-99	329,639	329,639
1999-00	258,379	258,379
2000-01	218,285	218,285
2001-02	166,174	166,174
2002-03	211,300	211,300
2003-04	199,405	199,405
2004-05	207,809	207,809

*Midland County refunds the City for all Delinquent Special Assessments through its Delinquent Tax Revolving Fund.

Source - City's Financial Records.

City of Midland, Michigan

Legal Debt Margin Year Ended June 30, 2006

Taxable Valuation at December 31, 2004 \$2,425,188,600

	Actual Direct Debt	Statutory Percentage of Taxable Valuation	Statutory Limit	Legal Debt Margin
General Obligation Debt	\$ 17,600,438	10	\$ 242,518,860	\$ 224,918,422
Special Assessment Debt	-	12	291,022,632	291,022,632

City of Midland, Michigan

Direct Overlapping Debt Year Ended June 30, 2006

Jurisdiction	Dated	Amount	Amount Outstanding
<u>Direct Debt</u>			
General Obligation Bonds:			
Wastewater System Bonds	11/01/1989	\$ 400,000	
Wastewater System Bonds	10/01/1990	725,000	
Wastewater Construction Bonds	04/01/2001	12,225,000	
State Revolving Fund Bonds	12/20/2001	4,359,063	
Downtown Development Authority Bonds	10/01/1992	250,000	
Civic Arena	9/1/2004	6,500,000	
Total General Obligations Bonds		24,459,063	
Revenue Bonds - Water Revenue Bonds	02/01/2000	5,775,000	
Total direct debt			\$ 30,234,063
Capital Lease Payable			1,498,454
Less:			
Self Supported G.O. Bonds:			
20% of Wastewater System Bonds supported by Wastewater System user fees		225,000	
40% of Wastewater System Bonds supported by Wastewater System user fees		6,633,625	
Revenue Bonds		5,775,000	12,633,625
Net direct debt			19,098,892
<u>Indirect Debt</u>			
City's share - Saginaw-Midland Water Supply Corporation Bonds		10,232,559	
Less amount paid from City's water earnings		10,232,559	
Net indirect debt			-
<u>Overlapping Debt</u>			
	Net Tax Supported Debt	City Share	
71.71% Midland County	\$ 2,282,990	\$ 1,619,325	
.18% Bay County	30,719,668	52,223	
1.80% Bullock Creek School District	15,963,778	272,981	
.30% Bay City School District	13,385,000	38,817	
.15% Bay Arenac ISD	635,000	953	
Net overlapping debt			1,984,299
Net direct, indirect, and overlapping debt			<u>\$ 21,083,191</u>
Per capita debt (42,175 population):			
Net direct debt			\$ 452.85
Net indirect debt			0.00
Net overlapping debt			47.05
Total per capita direct, indirect, and overlapping debt			<u>\$ 499.90</u>

City of Midland, Michigan

Permits Year Ended June 30

Fiscal Year	Property Values (A)	Construction (B)	Bank Deposits (C)
1995-96	\$ 3,944,462,000	\$ 18,093,914	\$ 510,956,000
1996-97	4,005,048,800	37,957,046	550,609,000
1997-98	4,057,998,800	47,763,801	499,676,000
1998-99	4,147,605,300	46,061,266	491,050,000
1999-00	4,289,667,000	41,517,466	488,836,000
2000-01	4,323,060,000	56,210,918	1,221,563,000
2001-02	4,479,793,400	66,338,161	1,283,712,000
2002-03	5,113,145,600	52,098,649	1,332,973,000
2003-04	4,778,677,000	53,838,620	1,290,591,000
2004-05	4,850,377,200	48,331,966	1,319,376,000

(A) City's Assessing Department

(B) City's Building Department

(C) FDIC Annual Report of Deposits per Chemical Bank

City of Midland, Michigan

Ratio of General Obligation Debts Year Ended June 30

Fiscal Year	Principal	Interest and Fiscal Charges	Total Debt Service	Total General Expenditures*	Ratio of Debt Service To General Expenditures (Percent)
1995-96	\$ 939,000	\$ 545,170	\$ 1,484,170	\$ 26,766,959	5.54
1996-97	940,000	483,832	1,423,832	27,790,674	5.12
1997-98	1,017,000	438,820	1,455,820	28,673,746	5.08
1998-99	1,018,000	397,032	1,415,032	30,204,379	4.68
1999-00	1,012,000	351,614	1,363,614	31,059,240	4.39
2000-01	1,097,000	305,310	1,402,310	32,427,716	4.32
2001-02	1,241,000	633,557	1,874,557	37,056,832	5.06
2002-03	1,471,000	602,660	2,073,660	42,808,998	4.84
2003-04	1,343,000	581,863	1,924,863	39,653,124	4.85
2004-05	1,416,000	687,507	2,103,507	46,464,625	4.53

*Includes General Fund, Special Revenue Fund, and Debt Service Fund

Source - City's financial records.

City of Midland, Michigan

Ratio of Net Bonded Debt Year Ended June 30

Fiscal Year				Debt Service Requirements			
	Gross	Operating Expenses	Net Revenue	Principal	Interest	Total	Coverage
	Revenue		Available for Debt Service				
1995-96	\$ 7,395,600	\$ 4,201,091	\$ 3,194,509	\$ 990,000	\$ 1,220,227	\$ 2,210,227	1.45
1996-97	7,763,929	4,896,789	2,867,140	980,000	1,160,779	2,140,779	1.34
1997-98	8,257,530	5,184,391	3,073,139	975,000	1,099,263	2,074,263	1.48
1998-99	8,923,318	5,522,026	3,401,292	1,120,000	1,033,063	2,153,063	1.58
1999-00	9,336,542	6,782,050	2,554,492	1,745,000	992,439	2,737,439	0.93
2000-01	8,937,836	5,932,598	3,005,238	1,105,000	587,603	1,692,603	1.78
2001-02	9,587,590	6,108,391	3,479,199	1,260,000	534,970	1,794,970	1.94
2002-03	9,732,581	5,924,678	3,807,903	1,325,000	475,294	1,800,294	2.12
2003-04	9,801,295	6,266,043	3,535,252	1,390,000	428,090	1,818,090	1.94
2004-05	10,307,652	7,165,252	3,142,400	1,335,000	328,336	1,663,336	1.89

Fiscal Year	Population (1)	State Equalized Values	Gross Bonded Debt	Debt Service			Ratio of Net Bonded Debt to State Equalized Value		Net Bonded Debt Per Capita
				Fund Balance	Less Self-Support G.O. & Rev. Bond Debt	Net Bonded Debt			
1994-95	39,900	\$ 1,918,450,650	\$ 35,535,000	\$ 1,023	\$ 24,085,000	\$ 11,448,977	0.60		\$ 287
1995-96	40,175	1,969,037,000	32,885,000	1,184	22,374,000	10,509,816	0.53		262
1996-97	40,210	1,998,047,300	30,215,000	6,490	20,644,000	9,564,510	0.48		238
1997-98	40,600	2,022,585,400	27,420,000	3,872	18,866,000	8,550,128	0.42		211
1998-99	40,650	2,064,583,750	24,445,000	3,624	16,909,000	7,532,376	0.36		185
1999-00	40,700	2,144,833,500	20,815,000	5,807	14,291,000	6,518,193	0.30		160
2000-01	41,685	2,161,530,000	31,285,000	21,901	17,698,000	13,565,099	0.63		325
2001-02	41,810	2,239,896,700	29,293,280	22,626	16,435,312	12,835,342	0.57		307
2002-03	41,935	2,556,572,800	29,858,961	118	16,170,584	13,688,259	0.54		326
2003-04	42,092	2,389,338,500	26,960,886	1,711	14,446,354	12,512,821	0.52		297

(1) Estimates provided by City Planning Department

(2) Taxable value

City of Midland, Michigan

State Equalized Valuation Year Ended June 30

Fiscal Year	Population (1)	State Equalized Values		Gross Bonded Debt	Debt Service Fund Balance	Less Self-Support G.O. & Rev. Bond Debt	Net Bonded Debt	Ratio of Net Bonded Debt to State Equalized Value	Net Bonded Debt Per Capita
1995-96	40,175	\$ 1,969,037,000	(2)	\$ 32,885,000	\$ 1,184	\$ 22,374,000	\$ 10,509,816	0.53	\$ 262
1996-97	40,210	1,998,047,300	(2)	30,215,000	6,490	20,644,000	9,564,510	0.48	238
1997-98	40,600	2,022,585,400	(2)	27,420,000	3,872	18,866,000	8,550,128	0.42	211
1998-99	40,650	2,064,583,750	(2)	24,445,000	3,624	16,909,000	7,532,376	0.36	185
1999-00	40,700	2,144,833,500	(2)	20,815,000	5,807	14,291,000	6,518,193	0.30	160
2000-01	41,685	2,161,530,000	(2)	31,285,000	21,901	17,698,000	13,565,099	0.63	325
2001-02	41,810	2,239,896,700	(2)	29,293,280	22,626	16,435,312	12,835,342	0.57	307
2002-03	41,935	2,556,572,800	(2)	29,858,961	118	16,170,584	13,688,259	0.54	326
2003-04	42,092	2,389,338,500	(2)	26,960,886	1,711	14,446,354	12,512,821	0.52	297
2004-05	42,175	2,425,188,600	(2)	30,234,063	7,984	12,633,625	17,592,454	0.73	417

(1) Estimates provided by City Planning Department

(2) Taxable value

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

City of Midland, Michigan

Economic and Statistical Data Year Ended June 30, 2006

Location	120 miles northwest of Detroit 86 miles north of Lansing 111 miles northeast of Grand Rapids 19 miles west of Bay City 24 miles northwest of Saginaw 27 miles east of Mt. Pleasant	
Total Number of Employees	377 Full-time 114 Part-time 141 Temporary and seasonal	
	632 Total	
Fire Protection	3 Fire stations 45 Fire fighting personnel 1 Clerical personnel	
Police Protection	1 Police station 48 Sworn police officers 3 Clerical personnel 18 Part-time crossing guards	
Streets	78.33 Miles major streets 153.19 Miles local streets 16.05 Miles state highway	
	Water treatment plant capacity:	
	Potable water	28.8 MGD
	Industrial grade water	19.2 MGD
	Customers:	
	City - Potable water	15,465
	Industrial water	2
	Water District No. 1	2,818
	Auburn	927
	Homer Township	979
	Larkin Township	657
	Midland Township	507
	Water mains	306 miles
	Hydrants	2,701

City of Midland, Michigan

Economic and Statistical Data (Continued) Year Ended June 30, 2006

Sewers	194 miles of sanitary sewers	
	168 miles of storm sewers	
Recreation	8 major parks	
	7 active recreation parks	
	55 neighborhood parks	
	Total park area (approximately 2,700 acres)	
	1 9-hole municipal par 3 golf course	
	2 18-hole municipal golf courses	
	1 3-sheet artificial ice rink arena	
	1 municipal swimming pool	
	1 15,000 ft. ² skateboard park	
	1 beachfront park	
	1 BMX track	
	2 sprayground facilities	
Population	1940 U.S. Census	10,329
	1950 U.S. Census	14,285
	1960 U.S. Census	27,779
	1970 U.S. Census	35,176
	1980 U.S. Census	37,269
	1990 U.S. Census	38,053
	2000 U.S. Census	41,685

City of Midland, Michigan

Demographic Data Year Ended June 30

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income</u>	<u>Median Age</u>	<u>School Enrollment (2)</u>
1995-96	40,175 *	\$ 19,347 (1)	33.1 (1)	9,434
1996-97	40,210 *	19,347 (1)	33.1 (1)	9,519
1997-98	40,600 *	19,347 (1)	33.1 (1)	9,618
1998-99	40,650 *	19,347 (1)	33.1 (1)	9,569
1999-00	40,700 *	19,347 (1)	33.1 (1)	9,616
2000-01	41,685 (1)	26,818 (1)	36.2 (1)	9,501
2001-02	41,810 *	26,818 (1)	36.2 (1)	9,688
2002-03	41,935 *	26,818 (1)	36.2 (1)	9,677
2003-04	42,092 *	26,818 (1)	36.2 (1)	9,636
2004-05	42,175 *	26,818 (1)	36.2 (1)	9,510

Sources:

(*) Estimates provided by City Planning Department

(1) U.S. Bureau of the Census

(2) According to fourth Friday counts for kindergarten, elementary, and middle/high schools, Midland Public School District (includes special education students)

City of Midland, Michigan

Statistical Data Year Ended June 30, 2006

Established	March 7, 1834
Form of government	Charter Township
Number of employees (excluding police and fire):	
Classified	81
Exempt	128
Area in square miles	36

Streets	
Miles of streets	325
Street lights	705

Recreation	
Community centers	1
Parks:	
Township-owned parks	10
County-owned parks	2
Private subdivision parks	35
Golf courses	2 - 45 holes

Public Safety	
Public Safety Headquarters	1
Sworn Police Personnel	77
Support Services (Civilian)	30
Number of patrol units:	
Cars and Jeep	39
Prisoner van	1
Motorcycles	4
Number of violations:	
Physical arrests	2,649
Traffic violations	16,647
Parking violations	433

Fire Stations	2
Sworn Fire Personnel	55
Support Services (Civilian)	3
Number of calls answered	5,100

Election Data	
November 2002 election:	
Registered voters	48,906
Voters at polls	25,586
Absentee ballots	6,180
Percent voting	65%

Population Data	
1960 federal census	5,313
1970 federal census	11,026
1980 federal census	48,616
1990 federal census	57,040
2000 federal census	76,366

Library	
Registered patrons	61,715
Items circulated	945,464
Book collections	210,708
Internet access available	
www.metronet.lib.mi.us/canton	

Water Department	
Miles of water mains	279
Number of customers	21,835
Number of fire hydrants	3,493
Rates:	
Minimum - 5,000 gallons	11.30
Additional usage billed at \$2.26 per 1,000 gallons	

Sewerage System	
Miles of sanitary sewers	248
Number of customers	21,520
Rates:	
Minimum - 5,000 gallons	15.75
Additional usage billed at \$3.15 per 1,000 gallons	
Sewer only:	
Quarterly billing	30.00
Bi-monthly billing	20.00